





# Thatcher Marks 10 Years as Party Chief, But Her Success Is Flawed

By Michael Getler  
*Washington Post Service*

LONDON — Ten years ago, a determined but relatively unknown member of Parliament, Margaret Hilda Thatcher, challenged the established leaders of Britain's then opposition Conservative Party and won the right to lead it. Today, after almost six years as prime minister, Mrs. Thatcher and "Thatcherism" dominate and divide British politics and public life.

Deeply conservative, the 59-year-old daughter of a grocer still "lives above the store" at 10 Downing Street and is, by all accounts, a formidable political leader: tough, articulate, informed and relentless.

Mrs. Thatcher may well be on her way to becoming Britain's longest continuously serving prime minister, with three years left of her second term and apparently in good shape to win a third five-year term at the next election. She is blessed with a fractured, and some say politically suicidal, opposition. This enables her to hold a 141-seat majority in the House of Commons, even though only about 43 percent of voters backed her in the 1983 election.

Yet, to many people, including some of her admirers, Mrs. Thatcher has a serious political flaw — usually described as an abrasiveness. It manifests itself in a desire for total victory, a guilt-by-association style of rhetoric aimed at her enemies, and a seeming lack of compassion for those outside her cult of individual initiative.

Many commentators believe it contributes to and may even accelerate the growing polarization between the decaying industrial North and

the prosperous South, and between the record 13.9 percent unemployed and the rest of the work force.

Indeed, if a line were drawn across Britain from southern London in the east to southern Bristol in the west, one would find no Labor Party parliamentary representatives to the south and no Conservative control of any major city to the north.

Ten years after her success in gaining control

## NEWS ANALYSIS

of her party on Feb. 11, 1975, four aspects of her

stewardship seem to dominate:

- She has become the most radical prime minister in many years and is beginning to leave marks on British society that probably will endure. These include reducing the degree to which people look to government to solve their problems, rolling back controls ranging from those on overseas investment to wages and prices, tackling head-on the power of big labor unions, and selling off about \$8 billion worth of state-owned industries.

- Her personality alienates many people, from average Britons to a number of foreign leaders with whom she has tangled in Ireland and Western Europe, and threatens to obscure or overturn what she is trying to accomplish.

- Her total dominance of the political scene, and the relative weakness of the opposition, have raised serious concern that there is not only no coherent alternative to Thatcherism being

voiced, but also that significant minority groups and opinions have few channels through which to be heard.

- It is still not clear whether Mrs. Thatcher will succeed in shaking up her countrymen — reintroducing what she calls an "enterprise and entrepreneurial culture" into a country that has had a substantial dose of socialism in recent decades.

The prime minister has successfully slashed inflation from 20 percent to 3 percent, although partly at the cost of 3.3 million unemployed. British growth has continued, slowly, despite the recession of a few years ago. And both economic growth and Mrs. Thatcher's popularity could be strengthened if the government, as now looks likely, emerges victorious in the bitter, 11-month coal miners' strike.

But it is not certain that Britain as a whole cut out to respond to Mrs. Thatcher's brand of aggressive global marketing and competitiveness.

Thus, despite her unquestionable political power, Mrs. Thatcher is a figure of ambivalence — admired by many for her grit and goals, despised by many who see her as cruelly disregarding the plight of the have-nots, and frustrated by many who see her as unnecessarily confrontational.

This ambivalence is perhaps best described by one of Mrs. Thatcher's major targets, Ken Livingstone, the socialist leader of the Greater London Council whose job the prime minister is eliminating.

"I think I admire the determination," Mr.

Livingstone told a television interviewer. "Because all the track record of the last 30 years is a series of prime ministers who are just blown backwards and forwards by events. Now Mrs. Thatcher's tried to impose her personality on events and the Civil Service, and that I find very admirable. It means that people know what they're getting when they vote for her."

Mrs. Thatcher, Mr. Livingstone continued, is among the small group of leaders "who are able to articulate hopes and fears, and they change hearts and minds and shift political opinion."

"I think Mrs. Thatcher detected, after 30 years basically of the welfare state, a growing disillusion with bureaucracy, a feeling that people had to pay too much in tax," Mr. Livingstone said, "and she very skillfully turned that against socialism, though it wasn't all the fault of socialism by any means. But people can identify with it."

But, he added: "If you've got that degree of determination and ruthlessness, you have to be much more sensitive to the moods of public opinion. You've got to be more than the average prime minister and be acutely aware of the broad consensus that exists in the country."

That is what Mrs. Thatcher does not have, he said. From the start, Mrs. Thatcher has been an outsider. Although an Oxford graduate, she was not a member of the landed gentry or upper class or traditional governing elite. Her success and her appeal has eroded not only the solidarity of the labor unions, about a third of whose members voted for her, but also the establish-

ment, some of whom would prefer a more moderate and traditional brand of Toryism.

"Her government has brought the country face to face with its decline and administered a shock to the system, which has been most salutary and overdue," wrote Peter Jenkins, a columnist for *The Guardian*. "But never has she found the words to clothe her policies in national purpose in which lies the art of Tory government."

A top aide said: "It doesn't mean she doesn't care. But she has a different way of caring and that is to put the country in a position to earn its keep. The central issue is, 'Where is the money coming from?' and you can't duck that."

Hugo Young, another *Guardian* columnist, said: "She relishes controversy. She invites it, provokes it, rules by it, lives by it. If, occasionally, she must die by it, that is one of the risks of a game that no one before her has played."

Mrs. Thatcher's conservative ideology, dedication to capitalism, individual initiative, and to leading by "conviction" rather than always seeking consensus, has frequently led to comparisons with President Ronald Reagan.

But Mrs. Thatcher does not have Mr. Reagan's ability to put forward controversial programs without inflaming public opinion against him personally.

"She has a problem communicating that she cares about people," said one Mrs. Thatcher aide, "and Reagan doesn't have that problem. I suppose it goes back to her upbringing. She's an original. Nothing came easy or comes easy, nor is it allowed to."



Margaret Thatcher

## Pravda Pays Andropov Tribute on Anniversary

By Dusko Doder

*Washington Post Service*

MOSCOW — The Soviet Communist Party has paid warm tribute to its former leader, Yuri V. Andropov, who has emerged as almost a cult figure in the Soviet Union since his death a year ago.

An editorial in the Communist Party newspaper *Pravda* on Saturday heaped praise on the former leader in a eulogy suggesting that he is missed by members of the ruling elite as well as by ordinary citizens.

The editorial made only one mention of Andropov's successor, President Konstantin U. Chernenko, and did so in the context of continuity of Soviet policy. Diplomatic observers said the tribute seemed to underscore Moscow's commitment to Andropov's program of change.

Andropov, who served for 15 years as chief of the KGB, the Soviet security police and intelligence agency, before he assumed his position in the party Secretariat in May 1982, succeeded Leonid I. Brezhnev in November 1982.

His selection raised hopes that the Kremlin leadership would undertake reforms. Feelings are wide-

spread in the Soviet Union that Andropov could have achieved more had he served longer than 15 months as the country's leader.

*Pravda* described Andropov not only as "an outstanding figure" and an "ardent patriot" who struggled for peace and social progress, but also praised him for a "weighty personal contribution" in establishing Communist Party strategy.

Most of the article reflected Andropov's views about future tasks facing the Soviet Union. The eulogy cited many of his policies, including drives against corruption and for tighter social and labor discipline.

The tribute stood in marked contrast to a similar *Pravda* eulogy in November 1983 commemorating the first anniversary of Brezhnev's death. That tribute extended modest praise to Brezhnev and hardly dealt with his 18 years in power. Instead, it focused on Andropov and his policies.

In Saturday's eulogy, the cursory reference to Mr. Chernenko, 73, who has been ailing for the past six weeks, does not indicate an attempt to slight him. Mr. Chernenko has stated publicly that he is carrying



Yuri V. Andropov

out the program developed by Brezhnev and Andropov.

■ **Chernenko's Health**

A prominent Soviet heart specialist sought to dispel speculation about Mr. Chernenko's health on Saturday, saying that he has been working and "that means he's not dying." The Associated Press reported from Los Angeles.

However, Yevgeni Chazov, director-general of the Soviet Union's Cardiology Research Center and deputy minister of public health, declined to say whether Mr. Chernenko was healthy or ill, citing strict adherence to the Hippocratic oath.

## Communists In France Reject Reform

Reuters

PARIS — The French Communist Party rejected Georges Marchais' call for a new general election Sunday despite the party's electoral decline and calls by dissidents for reform.

Mr. Marchais, 64, was elected to a fifth three-year term at the end of the five-day 25th congress, during which party leaders resisted the demands for change.

The party spokesman, Pierre Juquin, who made a plea last week for reform in the party's strategy and internal structures, lost his seat in the 22-member decision-making politburo.

Mr. Juquin, however, was re-elected to the 137-member central committee together with two other dissidents, Felix Damelet and Marcel Rigout.

There was other evidence of dissension within Communist ranks when 65 of the 1,707 delegates abstained Saturday on a vote to approve its next three-year platform.

Mr. Juquin was the only politburo member to abstain in the vote after the leadership rejected amendments by reformists calling for a tougher stand on human rights violations in Soviet bloc countries and less Soviet-style "democratic centralism."

Mr. Juquin told the congress on Friday that the party, which has slumped to its lowest ebb since the 1920s, was losing support by refusing to criticize East European Communist states and ignoring the problems of new white-collar workers, youth and immigrants.

In his opening speech, Mr. Marchais set himself firmly against such changes and put the party on a new course of all-out opposition to President François Mitterrand. His party ended a three-year government partnership with Mr. Mitterrand's Socialists last year.

Mr. Marchais said after he was reconfirmed as leader that the reelection of the dissidents to the Central Committee showed the party's openness to internal criticism.

Mr. Marchais attacked Mr. Juquin's call for reform without naming him. "Turning the French Communist Party into a social democrat one is out of the question," he said.

The challenger has scored the last three victories now in the match that began Sept. 10. Forty of the games have ended in draws. Experts had speculated after overnight analysis that Mr. Karpov would resign the game without resuming play on Saturday. But Mr.

## Storms Batter Western Europe; 15 Killed in Highway Accidents

The Associated Press

LONDON — Storms with high winds, heavy snow and bitter cold spread across much of Europe on Sunday, causing hundreds of automobile accidents and disrupting travel by sea and air.

A pileup of three trucks and seven cars, blamed on snowdrifts, killed nine people on an expressway in central England on Sunday and a 50-car pileup on an icy, fogbound highway in West Germany killed six people and injured 56 others late Saturday.

The cold wave, Europe's second of the winter, stretched from Britain to central and northern Europe.

Roy O'Sullivan, a spokesman for the London Weather Center, said that no relief was in sight for at least a few days.

Temperatures plunged to minus 13 Fahrenheit (minus 25 centigrade) in Oslo on Sunday morning, a 19-year low, and were below freezing in most other areas.

Snow accumulations of nine inches (23 centimeters) were reported in central England, with drifts of four to five feet (1.2 to 1.5 meters) elsewhere. Winds were clocked at 57 mph (50 knots) in southwest England.

Streets were mostly clear in central London after a three-inch snowfall Saturday, but scores of roads were blocked elsewhere in Britain.

In West Germany, which was blanketed by snow six inches deep in most places, the authorities said that more than 200 people were injured in car crashes on Saturday and Sunday.

The worst accident involved about 50 cars on the Munich-Nuremberg highway. Police said six persons were killed and 56 injured late Saturday when a truck carrying pigs slid out of control on the highway and overturned. The subsequent pileup caused a nine-mile (15-kilometer) traffic jam.

## Kasparov Wins in Chess, Cuts Karpov Lead to 5-3

The Associated Press

MOSCOW — Gary Kasparov scored his second straight victory on Saturday in the conclusion of the 48th game of the world chess championship, cutting the lead of the champion, Anatoli Karpov, to 5-3.

Mr. Karpov resigned after Mr. Kasparov played his 67th move with the white pieces in the game that began Friday after a nine-day break. The game was adjourned Friday after 40 moves.

Mr. Karpov, 33, has not won since Nov. 24, when he scored his fifth victory in the tournament at a time when Mr. Kasparov, 21, still had not won a game. Mr. Karpov needs only one more victory to retain the world championship that he has held since 1975 for another three years.

The challenger has scored the last three victories now in the match that began Sept. 10. Forty of the games have ended in draws.

Experts had speculated after overnight analysis that Mr. Karpov would resign the game without resuming play on Saturday. But Mr.

Karpov chose to play out the game, breaking with tradition and arriving at the chess board before Mr. Kasparov.

The early moves on Saturday were played quickly, and Mr. Karpov tried to create counterplay by advancing his queen's knight pawn. But Mr. Kasparov first blocked it and then advanced his king to capture the pawn, putting himself two pawns ahead of Mr. Karpov.

Mr. Kasparov infiltrated white's position with his rook to create counterplay and established an effective blockade. Mr. Kasparov, however, managed to break through with his rook to attack Mr. Karpov's only remaining pawn.

Mr. Karpov tried to draw Mr. Kasparov into capturing the black rook. But Mr. Kasparov avoided this maneuver, which would have led to a stalemate position and a draw.

Mr. Karpov's resignation on his 67th turn drew applause from the 100 or so spectators and cheers and embraces among Mr. Kasparov's team.

## Fuel Rationing, Other Cuts Are Announced by Ethiopia

(Continued from Page 1)

to donate money to help alleviate the effects of the famine. He did not specify amounts but, in a less severe drought 10 years ago, Ethiopians paid a "famine tax" of one month's salary.

Colonel Mengistu said the ban on imports included luxury motor vehicles and textiles. "Until we manufacture our own clothes we should share and wear economical, our own national products, made by our own industries and by our own talents," he said.

Foreign-exchange savings would be used "for the urgent lifesaving program," he said.

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## U.S. Urges Space Arms

(Continued from Page 1)

place of one based always on balancing terror."

The text accused the Soviet Union of "almost certainly" violating the 1972 accord "by constructing a large ballistic missile early-warning radar in Siberia which is located and oriented in a manner prohibited by the ABM treaty."

The speech also said to meet West European fears that the United States would disengage from the defense of its continental allies. "America could not survive nor live in a world in which Europe was overrun and conquered," the text said.

Mr. Weinberger contended that the anti-ballistic weapons systems would be "equally effective against the SS-20 and other intermediate range Soviet weapons," referring to those targeted on Western Europe.

■ **Europe Favors Research**

Most government officials in Western Europe favor continued research on the space defense plan but they are overwhelmingly opposed to its deployment. The New York Times reported from Washington.

According to a survey by the Congressional Research Service, officials in Bonn, Paris, Brussels and London favor research partly as a hedge against possible Soviet breakthroughs and partly because they believe that research cannot be stopped, the congressional study group, quoted by *The Times*, found.

## WORLD BRIEFS

### Mandela Rejects Release From Prison

JOHANNESBURG (AP) — Nelson Mandela, the jailed anti-apartheid leader, on Sunday rejected the South African government's conditional offer of freedom and said he would not negotiate with the authorities as long as the government maintained its policy of racial separation.

His daughter, Zindi, read a message from Mr. Mandela, president of the banned African National Congress, to a crowd of 6,000 people in the black city of Soweto near here. "I cherish my freedom dearly, but I care even more for your freedom," the message said.

Mr. Mandela, jailed for life for treason in 1964, promised that he would not negotiate with the South African government until it rejected apartheid, renounced violence, legalized his organization and guaranteed political freedom for all. President Pieter W. Botha has offered to free Mr. Mandela if he renounces violence.

### Papandreou to Make Visit to Moscow

ATHENS (Reuters) — Prime Minister Andreas Papandreou begins a four-day visit to Moscow on Monday to promote relations between Greece and the Soviet Union, during a period of frosty relations with Greece's chief NATO ally, the United States.

It will be Mr. Papandreou's first official visit to the Soviet Union. He has been criticized repeatedly in the West for straining the cohesion of the North Atlantic Treaty Organization and aligning himself with Soviet policies in Poland and Afghanistan.

His talks will start immediately after his arrival, when he will meet with Prime Minister Nikolai A. Tikhonov at the Kremlin. Mr. Papandreou's official agenda mentions a "high-level meeting" scheduled for Tuesday afternoon, which has been taken to indicate a meeting with President Konstantin U. Chernenko or Mikhail S. Gorbachev, a senior Politburo member.

### France Urges UNESCO Study Group

PARIS (AP) — France has proposed to members of UNESCO's executive board that a special group be created to examine the crisis facing the 161-member organization, according to *Le Monde*, a French daily newspaper.

The report on Saturday said the proposed group would represent 12 countries which are members of the UN Educational, Scientific and Cultural Organization. The group's meetings would not be subject to the authority of Amadou Mahtar M'bow, the Senegalese director-general, and Mr. M'bow would not attend the sessions.

UNESCO's board begins a five-day meeting on Tuesday to consider the consequences of the U.S. withdrawal from the organization. The United States pulled out Dec. 31, maintaining that the Paris-based agency had become too political, had spent too much and was badly managed. Britain and Singapore also plan to leave.

### Machete to Lead Portuguese Party

LISBON (Reuters) — Portugal's divided Social Democratic Party named Rui Machete its new leader on Sunday but questions remained over whether he could overcome internal differences to guarantee stability in the coalition government of Socialists and Social Democrats.

The election of Mr. Machete, 44, currently the justice minister, came after an all-night meeting by members of the party's national council. Party sources said the election result was a setback for supporters of Carlos Moia Pinto, the former leader who resigned Tuesday. He did not attend the meeting and rejected pleas to reconsider his resignation as party leader.

### Arab, Brazilian Satellites Put in Orbit

EVRY, France (Reuters) — The Arab world's first communications satellite and a Brazilian satellite were orbiting the Earth on Sunday following a successful launch by a European Ariane-3 rocket.

The 22-minute flight of the rocket went without a hitch after lift-off late Friday night from French Guiana on the northeast coast of South America.

The ArabSat 1-a satellite, built principally by the French company Aerospatiale in Toulouse, will provide telephone, telex, television and radio transmissions for 22 members of the Arab League.

BrasilSat-1, the first of two satellites built by the Canadian company Star Aerospace, is designed to function for eight years and to provide similar services.

### Protesters Defy Curfew in Nouméa

NOUMEA, New Caledonia (Reuters) — Thousands of people defied New Caledonia's curfew Sunday and crowded the streets in protest independence plans for France's South Pacific territory.

Cars and pedestrians waving French flags converged on central Nouméa at 11 P.M. local time, the start of the regular overnight curfew that has been strictly enforced since its imposition last month. There were no arrests, although Edgar Pisani, France's special envoy, had warned earlier that curfew breakers would be arrested.

The protest ended after a speech by Jacques Lafleur, the head of the anti-independence Rally for Caledonia in the Republic. Mr. Lafleur said that Mr. Pisani's plans for the island's independence are unacceptable.

### For the Record

The New York City Council president, Carol Bellamy, announced Friday that she would challenge Mayor Edward I. Koch, a fellow Democrat, in the mayoral primary in September. Miss Bellamy, 43, has accused Mr. Koch of being overly sensitive to real-estate interests and to Manhattan but not sensitive enough to the poor, to minorities and to the city's four other boroughs. (NYT)

Ferry traffic on the English Channel returned to normal Saturday, after French seamen of Sealink, the British state-owned ferry company, ended a weeklong blockade of Dieppe, Boulogne and Calais, French officials said in Boulogne. The seamen were members of a union that was protesting an agreement on working hours signed by a competing union. (Reuters)

Riot police firing tear gas and wielding clubs broke up a student prayer meeting at the University of Nairobi on Sunday, injuring more than 100 students in the first serious civil unrest in Kenya since the 1982 coup attempt. (UPI)

### Correction

Leszek Pekala and Waldemar Chmielewski, sentenced for murder and kidnapping in a Polish court Thursday, were incorrectly identified in a picture caption in the Herald Tribune of Feb. 8. The are correctly identified at right.



Chmielewski Pekala

## Portugal an endless "green"

Known throughout the world as the country of 'Sunshine and Ocean', Portugal is also a country of endless green.

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## AMERICAN TOPICS



Frances James, riding a subway in Boston, and her daughter, Mary, above, who was shot in a robbery attempt.

### Strange Encounter On a Boston Subway

Mary James, 21, a Boston hotel restaurant supervisor, cashed a check on her way home from work and boarded a bus. Fumbling in her purse for change, she spilled several hundred dollars. A youth who sat next to her on the bus followed her out and shot her in the back when she refused to give up her purse. Fortunately, the bullet just grazed her skin after passing through several layers of clothing.

The following day Miss James's mother, Frances James, 55, a jail guard, found herself sitting next to two youths on the subway. She quoted one of them as saying, "I pumped a broad in Dorchester last night because she wouldn't turn loose her bag."

"Did you waste her?" Mrs. James said the other youth asked.

"Nah, I don't think so. There was nothing on the TV."

Mrs. James said, "I could have killed him." But unharmed and by herself, she followed him instead and had him arrested. "He's got a record a mile long and he's only 14," she said.

The youth, arraigned for attempted murder, was released on \$5,000 bond after his mother posted \$500 cash. The authorities withheld his name because of his age.

### Liberal Arts Majors Finding Steady Work

William J. Bennett, chairman of the National Endowment for the Humanities, writes in *The Washington Post* that a study by the University of Texas shows that of 1,300 of its recent liberal arts graduates, 80 percent are employed full time, 12 percent are full-time students and 5 percent are voluntarily unemployed, while only 3 percent are unemployed and looking for work.

Of the those surveyed, 28 percent went on to graduate degrees and professional or executive careers, 47 percent have jobs in the business world that require a college education and 24 percent have comparable nonbusiness jobs in social services, welfare and politics.

The study "concludes that liberal arts graduates have access to more sectors of the labor market than specialized graduates," writes Mr. Bennett. "The differ-

ence is that liberal arts majors often must generate first-job opportunities on their own initiative without relying greatly on campus recruiters."

### 1985 Existentialism, Albuquerque Style

The French existential philosopher Jean-Paul Sartre visited the United States in the 1940s and came away disappointed with Albuquerque, New Mexico, and other exotic-sounding cities. He complained, "Hidden beyond these magnificent and promising names is the same checkerboard city, the same red and green traffic lights and the same provincial look."

Albuquerque has no plans to change the color scheme of its traffic signals, but at the end of a tumultuous 12-hour meeting last week the city council voted a sales tax extension to pay for an \$86-million "festival marketplace" along the lines of Manhattan's South Street Seaport, Baltimore's Harborfront and Boston's Faneuil Hall marketplace.

Opponents plan to force a referendum. Bernt Groth, an architect and president of the Albuquerque Conservation Association, favored a simpler pedestrian area preserving the city's 1930s architecture and connecting downtown with the University of New Mexico campus. He dismissed the proposed marketplace as a place to go to "watch someone make fudge."

### Short Takes

The life expectancy of Americans at birth reached a new high of 74.6 years in 1982, compared with 74.2 years in 1981, the National Center for Health Statistics reported. Women are still expected to live longer than men. The average age for women is 78.2 years, for men 70.9.

Cactus Feeders Inc. of Dumas, Texas, the biggest cattle feeder in the United States, says it will end the routine feeding of growth-promoting antibiotics because of concern that this could endanger human health. It said that it is the first feed-lot operator in the country to end the practice voluntarily. Scientists are concerned that the practice will develop antibiotic-resistant bacteria in humans, rendering antibiotic medicines useless.

### Notes About People

At George Washington University Hospital is a quiet reminder of the day that President Ronald Reagan was shot. A patch of blue needlework, in a frame hanging on the wall outside Room N-4325 in the intensive care unit, says, "President Reagan Slept Here, March 31, 1981."

Mr. Reagan's press spokesman, Larry Speakes, quipped of the president, "He's certain he'll be remembered by a plaque in the Cabinet Room that says, 'Ronald Reagan Slept Here.'"

Mr. Speakes, attending a National Press Club dinner, also needed the defeated presidential candidate, Walter F. Mondale: "He's been working on his campaign memoir. It's entitled 'Trivial Pursuit.'"

Mr. Mondale needed himself at the same dinner: "All my life, I wanted to run for president in the worst possible way — and I did."

### Nooshing Knishes, Counting Calories

For nearly 100 years, the Yonah Schimmel Knishery has served up knishes on the long-unfashionable Lower East Side of New York City, where knish (pronounced kuh-NISH) connoisseurs find it's still worth a trip to noosh, or munch, the real thing, which is a wed of dough stuffed with mashed potatoes, cheese, onions or buckwheat groats and baked in the store's original brick ovens.

Now, The New York Times reports, Schimmel's has opened a tiny take-out shop on the fashionable Upper East Side. There's a decided difference in the clientele: "In a hundred years on Houston Street, nobody's ever asked how many calories there are in a knish," says Sonny Berger, a co-owner. "Up town, we get the question at least five times a day."

So how many calories are there? About 300. In uptown arithmetic, that translates roughly into one health-club exercise class or twice around the Central Park reservoir.

—Compiled by  
ARTHUR HIGBEE

## Reagan Missile Defense Would Kill ABM Pact, U.S. Arms Analysts Say

By Charles Mohr

WASHINGTON — Several arms control analysts have asserted that President Ronald Reagan's plan to build a defense against ballistic missiles and to design weapons that can destroy satellites would kill the 1972 U.S.-Soviet treaty that limits the size and effectiveness of anti-ballistic missile defenses.

Some advocates of arms control consider the anti-ballistic missile, or ABM, treaty the basis of arms control because, as long as it is complied with, it prevents either country from creating a territory-wide missile defense or an effective defense of missile silos.

This has prompted denunciations of nuclear war, they argue, because neither party can start a nuclear war without suffering retaliatory devastation.

John B. Rhineland, a Washington lawyer who was legal adviser to the U.S. delegation that negotiated the ABM treaty and the 1972 interim agreement to limit strategic weapons, said Friday that adoption of a policy of "defense dominance" by the United States would make the ABM treaty pointless.

Mr. Rhineland made his remarks at a press conference sponsored by the Arms Control Association, a private group based in Washington.

He was joined by Spurgeon M. Keeney Jr., who was deputy director of the government's Arms Control and Disarmament Agency from 1977 to 1981 and is now director of the Arms Control Association; Raymond L. Garthoff of the Brookings Institution, a former ambassador to Bulgaria and a student of Soviet military policy; and Michael Krepon, an associate of the Carnegie Endowment for International Peace and an analyst of the problems of verifying compliance with arms control agreements.

With regard to Mr. Reagan's Feb. 1 report to Congress on "Soviet noncompliance" with existing treaties, the group expressed general agreement that the construction of a large Soviet radar at Krasnoyarsk in Siberia appeared to be a violation of the ABM treaty.

They said that it seemed to be capable of tracking targets for anti-ballistic missile weapons, and that it was illegally located.

But Mr. Garthoff said it was "not a sound procedure" to make such complaints public, and that a U.S.-Soviet consultative commission in Geneva was a better forum for such discussions.

Mr. Keeney and other members of the group also said the United States itself appeared to be guilty of technical violations of treaties. They cited the accidental "venting" of nuclear contamination into the air from underground nuclear tests.

The speakers also said that the United States, like the Soviet Union, appeared to be seeking to exploit ambiguities in treaty provisions.

The spokesmen noted that Mr. Reagan, in his Feb. 1 report, said that the United States would seek in negotiations to "reverse the erosion of the ABM treaty." But they suggested that his policies were inconsistent with this goal.

Mr. Keeney said that the president's Strategic Defense Initiative, aimed at building a space-based defense against missiles, "must raise serious questions in Soviet minds as to our own intentions."

When asked if the administration could modify the ABM treaty to permit the development of strategic defense, Mr. Rhineland said, "The answer is no," because the United States says it is seeking the kind of nationwide defense prohibited by the treaty, along with space-based anti-missile systems that also are prohibited.

## New Drug Said to Slow Spread of AIDS Virus

By Walter Sullivan

NEW YORK — French researchers have reported that a new drug appeared for the first time to have inhibited reproduction of the virus believed to cause acquired immune deficiency syndrome, or AIDS.

Tests have been completed on only four patients, but a year and a half after initial treatment the blood of one patient, a 15-year-old boy, has not shown any evidence of the AIDS virus, and he has returned to school.

The researchers said Friday that the virus seemed to have disappeared, at least temporarily, in all the cases. They added, however, that there was no guarantee that the virus did not remain in a hidden form.

The researchers emphasized that the treatment should not be regarded as a cure. The drug also produces severe side effects, such as heavy internal bleeding, if not withdrawn soon enough.

Results of the experiments were described Friday by Dr. Jean-Claude Chermann of the Pasteur Institute, who spoke at a seminar on AIDS organized by the Scientists' Institute for Public Information. The drug he described, HPA-23, is a compound in which

antimony and tungsten atoms surround a core of sodium.

In AIDS, the virus attacks the body's immune system, leaving the body open to a number of disorders. AIDS belongs to a class of viruses, retroviruses, that alter the DNA, or genetic material, of the infected cell to produce more virus particles. The drugs being tested seem to block the enzyme from affecting the DNA.

The French researchers pointed out that several substances besides the new drug had been found to block the action of the enzyme in cell cultures. In a letter to a British medical journal, *The Lancet*, however, they say that their tests demonstrate for the first time that the drug blocks the spread of the virus in humans.

In the United States, the National Institute of Allergy and Infectious Diseases is testing other drugs against the AIDS virus, said the institute's director, Dr. Anthony Fauci. One, called zalcitabine, is now being assessed and tests are shortly to begin on another, known as ribavirin.

The 15-year-old AIDS patient, Dr. Chermann said, is a hemophiliac who presumably received blood-clotting material infected by the AIDS virus. He received two doses of the new drug.

The boy was given HPA-23 until the blood clotting effect, a decrease in blood platelets that can lead to uncontrollable internal bleeding, became worrisome. During that time doctors were unable to find any AIDS virus in his blood.

When the platelet count improved, the drug was given again, then the treatment was stopped in December 1983. Since then no AIDS virus has shown up in the boy's blood. Dr. Chermann said the child has returned to school and seems to be doing well.

In the other three patients, the virus was undetectable after two weeks of treatment but reappeared at low levels in subsequent cell cultures. As noted by the French group, a hopeful aspect is that the severe side effects are apparently absent when HPA-23 is used in moderate doses.

In its research, the French group initiated treatment on another 33 patients with the drug, and in all of them there has been a decrease in the reproduction of the virus. Eleven patients have died, however, which could indicate that treatment began too late.

Meanwhile, lecturers said at the seminar that widespread testing of blood in blood banks would probably begin within two weeks. The tests are designed to test a donor's blood for the AIDS virus by detecting antibodies that might have formed against the virus. Participants in the seminar warned that the tests were not infallible.

### Guatemala, Spain Renew Ties

GUATEMALA CITY — General Oscar Mejia Victores, Guatemala's chief of state, and Jose Luis Crespo Morales, Spain's ambassador, took part Friday in a ceremony marking the formal resumption of diplomatic relations between the two countries. Diplomatic ties were broken in 1980 after Guatemalan troops stormed the Spanish Embassy.

## Martens Wins Party's Trust Over Cruise

Washington Post Service

GHENT, Belgium — The government of Prime Minister Wilfried Martens of Belgium received the backing of his political party to decide when to deploy U.S. nuclear cruise missiles, amid growing signs that the country will not break ranks with its NATO allies on the deployment timetable.

Frank Swaelen, president of the Flemish Social Christian Party to which Mr. Martens belongs, told a congress in Ghent that the government "has our mandate" to decide when Belgium will deploy the first 16 of the 48 cruise missiles it is to receive. The North Atlantic Treaty Organization had scheduled the deployment to begin in March.

The party had asked the prime minister to delay the initial deployment to create a better atmosphere for U.S.-Soviet arms control talks. Mr. Swaelen, however, did not mention the party position on deployment, focusing instead on the party's trust in Mr. Martens.

Last month in Washington, Mr. Martens refused to commit Belgium to begin deployment in March, but said the country would decide on an installation schedule by the end of that month.

### Slight Quake Shakes Rome

The Associated Press

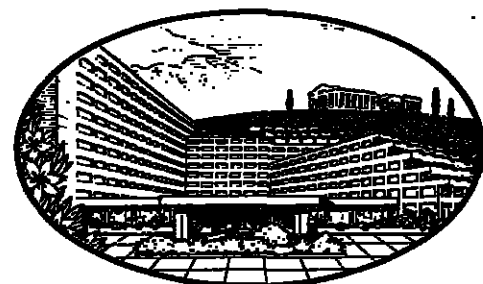
ROME — A slight earthquake, measuring 2.7 on the open-ended Richter scale, shook Rome early Sunday. There were no reports of damages or injuries, officials said.



Prime Minister Wilfried Martens of Belgium paused in front of a banner of the Flemish Social Christian Party before speaking on Saturday at a party congress in Ghent.

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## Soviet Aims in Central America Cited

(Continued from Page 1)

continue and accelerate its military and economic aid to Central America, the paper asserts, the United States could be faced with these developments:

• A perception in the world that

the Soviet Union can establish a military presence anywhere it chooses, and that the United States is powerless to impede Soviet aggression, even on its own border.

• Far more complicated defense planning to keep open the sea-lanes through which pass half the U.S. imported petroleum and more than half of the resupplies and reinforcements needed by the North Atlantic Treaty Organization in time of war.

• Expanded centers for terrorist operations against the United States.

Central to the administration's case are documents seized after the U.S.-led invasion of Grenada in October 1983. One describes a meeting between Mr. Gromyko and Maurice Bishop, who was Grenada's prime minister until he was killed before the invasion.

The meeting took place in April 1983, and afterward the Soviet press reported that "much attention was given to the dangerous development of the situation in Central America and the Caribbean, where the U.S.A. persists in pursuing its hegemonic policy."

The Grenadian document said that Mr. Gromyko "warned the Grenadians to move carefully in their revolutionary expansionism so as not to signal their plans to the 'imperialists,'" the white paper says.

In Nicaragua, the paper says, "the mask of Sandinismo has slipped away," adding: "What is revealed is the mask of communism." The country has received far more arms from the Soviet Union and its allies than all its neighbors, the paper asserts.

The Soviet Union recently has provided Nicaragua with 110 medium battle tanks, 30 light amphibious tanks, 200 armored personnel carriers, 70 long-range artillery

pieces and nearly 500 rocket launchers, howitzers and anti-aircraft guns, according to the paper.

Nicaragua's recent acquisition of river-crossing equipment, the paper contends, "implicitly threatens Honduras and Costa Rica."

The paper describes several million-dollar, military-related construction projects in Nicaragua, paid for by the Soviet Union or Cuba. "Such a large investment in Nicaragua," it says, "indicates that Soviet leaders consider that country an important complement to Cuba in the Soviet's opportunistic strategy to increase pressure on the southern border of the U.S."

The administration has asserted often that Nicaragua has been the main supplier of arms to Salvadoran rebels. The new paper reasserts that "the bulk of the M-16 rifles that the Salvadoran military has been traced by serial number to shipments by the U.S. to South Vietnam more than a decade ago, and were 'consequently captured by the communist forces after the fall.'"

Further, the paper describes some of the supply routes and methods it contends are used to deliver rifles and other material to the Salvadoran guerrillas. It says that the "organizational structure of the Salvadoran guerrillas was orchestrated by Fidel Castro," the Cuban leader, and it adds that rebels have begun using classic Soviet disinformation techniques.

In conclusion the paper contends: "Kremlin leaders hope that ultimately the United States could become so preoccupied with chaos on its doorstep that it would be forced to shift dramatically its military forces, thereby opening new possibilities for the Soviet Union in other key areas of the world."





By Steve Lohs

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(from Back Page)

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**LOW COST FLIGHTS**

His admission confirmed what had been reported as rumors circulated by South Africa's security police to discredit him.

By Douglas Martin

The sealers are backing the moratorium to defuse opposition to their trade. This has arisen, they believe, from films and pictures of the pups being clubbed.

**By Larry Rohter**  
*New York Times Service*

**MANAGUA** — The Nicaraguan government has announced a 78-percent devaluation of the currency, the córdoba, and has warned Nicaraguans that "new sacrifices would be required to overcome

he called "speculating shopkeepers" who have "robbed the people of billions of córdobas."

One step to be taken is the ending of subsidies on basic foodstuffs. Although these subsidies were "originated to serve workers and peasants," Mr. Ortega said,

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It is hoped, he added, that this turn will stimulate production and pull the country out of its recession.

• **Adolfo Chamorro** César, official of the Democratic Revolutionary Alliance, a Nicaraguan rebel group, has left Costa Rica, government spokesman said Saturday in San José. The government last week ordered Mr. Chamorro leave the country because it said

production center, in 1931 the Jaguar was built in Britain. It merged with British Leyland in 1966, which is now two years later with Leyland Motor Corp. Sam A. Jaffe, 55, is TV Correspondent.

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# Herald Tribune

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## What Peru Really Needs

The pope was constructively true to form, striking a deep chord among Peruvians by condemning political violence but demanding social justice. The Shining Path guerrillas followed the precedent, striking not with political counterargument but with dynamite at Lima's power stations. Sadly, the performance of President Fernando Belaúnde Terry was just as predictably negative. In the week of John Paul II's stirring visit, the president could find no more imaginative use for international attention than to rail against Amnesty International for reporting on the thousands of civilians who have disappeared in the course of his brutal counterinsurgency campaign.

Shining Path is not responsible for every atrocity attributed to it by a hard-pressed government, and the authorities cannot be expected to scrupulously respect civil liberties while fighting fanatical insurgents. Yet both sides, eager to shoot, have contributed to a breakdown of civil order. Combined with Peru's daunting economic difficulties, that casts a shadow over the future of democratic rule. President Belaúnde has not been lucky. His 1980 inauguration, which ended 12 years of military rule, coincided with the outbreak of rebellion and the onset of economic collapse.

The Shining Path rebellion, nominally based on the teachings of a Maoist professor, took root in the discontent of poor and alienated peasants in the remote central highlands.

The economic reckoning also came quickly, speeded by the military governments' excessive arms purchases and expensive nationalizations. Then export prices collapsed and the whole continent fell into a debt crisis. Recession has dragged on for four years, deepening rural poverty and urban unemployment. Peru has now stopped payment on its \$13-billion foreign debt. Only one sector of the economy thrives: the illegal production and marketing of cocaine. That, of course, benefits neither poor Peruvians nor government coffers.

If there is a basis for optimism it is in the presidential election due in April. A new administration could symbolize a fresh start. But whoever wins will need substance, too. Washington could help. Reagan administration proposals to double military aid are worse than useless unless paired with economic and political support. The pope's words made clear the intimate link between social peace and social justice. Securing Peru's troubled democracy requires more than the shipping of guns. — THE NEW YORK TIMES.

## Pacific Nuclear Allergy

Is there something in the water down under? No sooner does New Zealand take a long step toward opting out of its ANZUS alliance with the United States and Australia than the Australian prime minister says he's awfully sorry but he can't make good on his commitment to let American aircraft use local bases while they are monitoring nearby MX missile tests. Robert Hawke's awkward little announcement, which events at home made him deliver while he was visiting in Washington, is far less serious than what the New Zealanders have done. But it reflects a similar nuclear allergy, and it is disturbing to see it on the loose.

In New Zealand, Prime Minister David Lange wants to have it both ways: to deny access to U.S. Navy ships because they might be nuclear-powered or nuclear-armed, yet remain a member in good standing of the security treaty. He and his supporters have come to see the U.S. nuclear umbrella as a lightning rod likely to draw an attack on them in a crisis. They treat requests to participate routinely in the common defense as provocative forms of interference in their sovereign affairs.

Most Americans, we suspect, will wonder what happened to New Zealand's traditional sturdy commitment to the principle and practice of collective security. But it is not for Americans to force upon any ally an un-

come measure or form of protection. There is no call for retaliation of any kind. (Economic sanctions have, foolishly, been mentioned.) But Americans cannot join Mr. Lange's little charade and pretend nothing has changed. What he proposes is free-loading. It flouts the political and moral requirements of alliance.

As a Pacific naval power, moreover, the United States cannot watch with indifference the spreading of different kinds of anti-nuclear sentiment through a vast realm of the South Pacific — no matter how tranquil and remote that region may now seem. As a world power it must consider what conclusions may be drawn by allies elsewhere and by other groups waving the anti-nuclear banner as they observe the American embarrassment in New Zealand.

The immediate focus of concern is Australia. Prime Minister Hawke leads a Labor Party with a left wing reinforced by a party called the Nuclear Disarmament Party. He has some troubles and is said to hope to ease them by a propitious concession on the high-profile matter of supporting the MX tests. Washington is going along. Certainly it is far better that the matter of Australia's alliance participation be handled in its own political arena than to have it become a matter of diplomatic contention. We hope Mr. Hawke knows what he is doing. — THE WASHINGTON POST.

## Make-Believe in Seoul

Whatever happened at Seoul's airport, they were not exactly throwing pots Friday when the exiled Kim Dae Jung returned to South Korea. The country's best-known opposition leader was hustled away from the Americans who accompanied him, and they in turn were roughed up by security police. So with the whole world watching, South Korea's military regime bared its fangs in an inexcusable and juvenile show of pugilism.

To be sure, Seoul denies that any beatings occurred. But Mr. Kim says otherwise. So do two U.S. representatives, a former U.S. ambassador and a former assistant secretary of state for human rights. Besides, the Seoul regime saw to it that foreign reporters were kept on their plane during the crucial encounter, assuring confusion about what happened.

Perhaps Mr. Kim's American escorts were jumpy and had not been told that shoving and punching are considered mild by local standards. But they understood that they would be allowed to see him home, where he and his wife are now under virtual house arrest. Events recalled too vividly a scene in Manila in August 1983, when another exiled democrat, Benigno Aquino, was killed on arrival while in the hands of a military welcoming committee.

President Chun Doo Hwan is unlikely to do

anything so drastic. His Fifth Republic is electing a National Assembly on Tuesday and he wants favorable headlines for this limited plebiscite. Nor does he want publicity that could unsettle plans for a state visit to Washington in April. Down the road lie the 1988 Summer Olympics, when his regime hopes to gain respect and acceptance as something more than a police state.

So why the mauling at the airport? Why not let Mr. Kim return in peace, and leave him in peace? Why, for that matter, not loosen press controls and give South Koreans political as well as economic freedoms? The usual explanation is that the military rulers fear corruption and demagoguery that would be exploited by the Communist North. So, demagoguery, they write make-believe constitutions that offer paper guarantees that crumble when tested — resisting the North by imitating it.

Americans have sound security reasons for continuing to defend South Korea, and economic reasons for welcoming its trade. But there are no reasons for swallowing this make-believe. If South Korea wants the respect of Americans, a good beginning would be to apologize for the airport outrage and to make sure that Mr. Kim remains unharmed. — THE NEW YORK TIMES.

## Other Opinion

### A Speech Not Meant for Europe

There is no good news for Europe in [President Reagan's] State of the Union speech, and a fair amount of bad news. The Reagan administration is not going to do anything coherent to reduce the federal budget deficit and will certainly not cut its main defense projects to reduce the gap. The dollar will continue to climb, or at least to remain wildly overvalued, while the other main currencies of the world tumble around uncontrollably and panicky

governments try to lasso them with high interest rates. Yalta, the ugliest face of partnership, accepted that the great powers were joint trustees for the survival of the world. We can try to soften that ugliness, but nobody can escape the duty of trusteeship, or try to exercise it alone. In this State of the Union message there is no awareness of that joint duty, only a celebration of one national destiny. It is frightening, 40 years on, that the lessons of war have still not apparently been learned.

— The Observer (London).

### FROM OUR FEB. 11 PAGES, 75 AND 50 YEARS AGO

**1910: Dutch Deny 'German Threat'**  
THE HAGUE — In the First Chamber of the State General [on Feb. 10] there was a sequel to the suggestion made recently by Baron van Heeckeren that the German Emperor had threatened an occupation of Dutch territory if Holland did not put itself in a state of defense against Great Britain. Dr. de Maere van Swinderen, the Minister of Foreign Affairs, denied that Queen Wilhelmina had ever received any letter, telegram, note or document of the kind described, or that the Queen had ever held any conversation with the Emperor on the subject. The Minister concluded his statement with an expression of his appreciation of the German Emperor, whose friendship for Holland had been shown often.

**1935: Islands at Issue in the Far East**  
WASHINGTON — Reports that Japan might seek to have its Pacific islands excluded from any non-fortification pact, while limiting fortifications of Hawaii and Singapore, caused officials here to express doubt if Tokyo would take such a step. It was pointed out that Japanese newspapers which carried the reports possibly failed to realize that Hawaii and Singapore were not included in the status quo clause of the Washington naval treaty and therefore the United States was at liberty to construct whatever fortifications it desires at Hawaii, while Great Britain may do likewise at Singapore. They also scoffed at the Japanese claim that their Bonin Islands were "purely" defensive, while Hawaii and Singapore were offensive.

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## Whatever Their Health, Our Leaders Seem Deaf

By James Reston

WASHINGTON — It is just a year since Yuri Andropov died in Moscow. For the last six weeks his successor, Konstantin Chernenko, disappeared from public view until he was finally reported present at a Politburo meeting Thursday. Rumors fly like snowflakes around the capitals of the world, but most of the time nobody knows where or how he is.

This is the tangle in the line of U.S.-Soviet communications. The United States can negotiate with the Russians in Geneva next month about the control of nuclear weapons, but it doesn't know how to talk to the people in Moscow who give the orders, or even know who they are.

The contrast between the two political systems has seldom been more obvious than in the last few days: President Reagan proclaiming a second American revolution, as if the first one had failed, followed by a torrent of questions and protest not only from the opposition but his own congressional leaders and budget director; and meanwhile, in Moscow, nothing but Pravda's endlessly boring and badly written propaganda.

The last time the leaders of the United States and the Soviet Union met was in Vienna in 1979. President Carter and Leonid Brezhnev got on fairly well and wondered why they had not met sooner. But by then Mr. Brezhnev was stumbling over the curbstones and soon he was gone.

In fairness to Mr. Reagan, while at first he did not want to talk to the Russians and then changed his tune, the fact is that during his first term it seemed too late to talk to the ailing Mr. Brezhnev and too early to talk to Mr. Andropov, who did not long after taking control. And Mr. Chernenko, whatever his doctor says, seems to be drifting into the shadows.

Maybe it was wrong in the first place to think that talking to a particular Soviet leader made all that much difference. Personal control of Soviet policy lasted from Lenin to Stalin, and maybe marginally to Nikita Khrushchev, who had some glimmers of the possibility of reconciliation and cooperation with the West. After that the collective system of leadership prevailed, and more than ever before.

Yet even during the last generation there has clearly been a chance for serious talk about the fundamental interests and differences between the two major nuclear powers.

The Soviet foreign minister, Andrei Gromyko, now 75 and the infirming mind of Soviet foreign policy came to Washington for the first time 46 years ago; as foreign minister since 1957, he has had personal access to 14 U.S. secretaries of state and every president since Roosevelt. Ambassador Anatoli Dobrynin has been in Washington for 23 years and is dean of the diplomatic corps; he has had more access to six presidents and their secretaries of state than any diplomat of the last generation.

The main problem is not the incidence of death — mortality, at least, we have in common — but the dialogue of the living dead. Washington and Moscow do say many sensible things about their common interests, shouting them across the world on the radio waves, but they don't listen and they don't believe.

For example, both are now saying that they not only want to control and reduce nuclear weapons but get rid of them and use peaceful atomic energy for the benefit of a hungry world. Also, Moscow wants Washington to promise not to be the first to use atomic weapons. Washington rejects this on the ground that it would leave the Soviet Union free, with its commanding lead in conventional weapons, to dominate and intimidate Western Europe.

Just the other day the Russians suggested at the Stockholm conference that each side pledge not to use military force of any kind, nuclear or conventional, against the other. Due to lack of trust there was no agreement and not even much discussion.

So what to do? Caspar Weinberger wants to build nuclear ships as long as the Brooklyn Bridge and bring the Russians to their senses in outer space if not on Earth. Others place their faith in a new generation of Soviet leaders like Mikhail Gorbachev, who at 53 is better educated but lacks the personal knowledge of the old men who remember the carnage of the two world wars.

The trouble is that there really is not much serious analysis of this problem by U.S. and Soviet historians and philosophers; when there is, it tends to lead down into polemics. It is this dialogue of the dead that is the real problem. It is not likely to be resolved in Geneva unless the effort starts in Washington and Moscow.

The New York Times.



## Cigarette Companies Soon in the Dock

By George F. Will

SAN FRANCISCO — Paul Monzone, armed with charm and the "thin skull doctrine," is about to take on the American tobacco industry in a case with huge stakes and intriguing wrinkles.

Mr. Monzone, 28, is a lawyer who works with Melvin Belli, who fancies himself "the king of torts." Mr. Belli certainly is a pioneer in product-liability law, and for years has been trying to get cigarette companies found liable for willful misconduct in manufacturing an inherently unsafe product.

Mr. Belli solicited the case on which Mr. Monzone is working. Soliciting cases is illegal unless done pro bono publico, so Mr. Belli's firm will give its one-third of any settlement to cancer research.

Mr. Belli got the case after asking, in a speech to people who work in hospitals for the terminally ill, if anyone knew of a person suffering from squamous cell carcinoma at the juncture of the bronchus, a cancer especially associated with smoking. He was told of John Galbraith.

Mr. Galbraith was a smoker. And now, before he died several years ago of congestive heart failure brought on by severe emphysema and cancer, he was on bottled oxygen 24 hours a day — and he would still remove the oxygen mask and sneak a cigarette. Mr. Belli and Mr. Monzone will ask a jury to find several cigarette companies liable for Mr. Galbraith's death because the companies "expressly and impliedly warranted" that cigarettes are fit for human consumption.

The companies' more interesting argument will be that Mr. Galbraith, who had a master's degree, was well read (a rash assumption about holders of master's degrees) and thus knew the "controversy" about cigarettes and freely assumed the risk. If there is a risk.

Besides, the companies will ask, what about the fact that millions of smokers do quit? Mr. Monzone will argue that Mr. Galbraith was incapable of quitting and that the companies are liable under the "thin skull doctrine."

That doctrine says that if you accidentally strike a person on the head, striking a blow that is too light to injure most persons but that injures the struck person because he has an unusually thin skull, you are liable. You are liable because the law says you must take the plaintiff

as you find him. It is not his fault if his skull is thin.

Mr. Galbraith's "thin skull" was, supposedly, his personality. Mr. Monzone will present a psychological portrait of an addictive personality and a convert to Mormonism driven to irrationality by guilt about his inability to quit smoking.

Product-liability law has come a long way from caveat emptor — let the buyer beware. That doctrine severely limited manufacturers' liabilities in the days when courts thought expanded liability would jeopardize American industrialism.

What is bothersome about some of today's product-liability cases is less that they broaden manufacturers' liability than that they seem to deny the individual's responsibility for his behavior. Indeed, when Mr. Belli lost a cigarette case in Louisiana, the judge suggested that if he had won he would soon have wanted Elsie the Cow held liable for heart disease caused by cholesterol.

But in the current case Mr. Belli and Mr. Monzone are emphasizing addiction, understood as a chemical dependency suffered by persons who know it is injuring them. Mr. Monzone wants smokers on the jury because they, as authors of countless New Year's resolutions to quit smoking, know addiction.

This case is coming to trial just as a quasi Congress gingerly comes to grips with the new budget, which proposes an end to tobacco programs. Those programs subsidize production of a substance that goes into the product that has Mr. Monzone seeking huge punitive sums to deter companies from causing "a growing epidemic of death and loathsome illness." But then, Congress is addicted to such programs.

Washington Post Writers Group.

## Again a Familiar German Reluctance To Live Within the Reality of the Day?

By William Pfaff

PARIS — The recrudescence of terrorism in West Germany comes as Germans again question the frontiers of the nation and worry about matters, and are indeed separate in every practical respect. If, however, one considers "the spiritual situation of our times" — a phrase to be heard in Germany — a different conclusion is possible.

"Euroterrorism," as today re-invented and regrouped, seems to be essentially German, so far as it is serious. The identities of the people who in Belgium have been leaving bombs at NATO addresses, and those who fired some rockets at NATO targets in Portugal, remain unknown, of course. Until now, neither country has experienced more than incidental terrorism.

The French group that calls itself Action Directe, which has now embarked on the course of murder, has clearly been taken over by Germans, even to writing its declarations now in broken French.

This band began by romantically assisting anti-Franco Spaniards in the 1960s, before drifting into episodic bomb-planting in its own country. The French police later rounded its members up — there are only a few of them — but the new Socialist government in 1981 turned them loose in the belief that they were harmless and would be content with the left in power in Paris. The fact that they could have been treated in so patronizing and casual a way is evidence of how unimportant they were, and how slight their roots in French society.

West Germany and Italy have

been the two European countries where terrorism counted, and in both places one can see why. In Italy it was an insurrection against what seemed a corrupt and totally unreformable government and political class, and in some larger sense a rebellion against the experience of Italy in modern times as a kind of museum for the rest of the world and mausoleum for Italians.

In West Germany the sources of terrorism were less simple. The moral experience of the war certainly had to do with the defection of a part of the war-born generation from a complacent and materialistic postwar society. The development of the terrorist left enjoyed, and to an unclear extent still enjoys, sympathy and a certain complicity in a much larger part of the nonviolent but anti-establishment left.

It is difficult not to see in this influence of a larger West German refusal to live within the moral and political realities of the present day. Germans notoriously have wanted more from history than it is accustomed to provide. They have searched for universals in a world of unsatisfactory particulars. They have, historically, always wanted, and have found both good and bad ones. The filmmaker Hans-Jürgen Syberberg remarks that "without a vision, Germany is nothing," an opinion that has often been heard in the past.

Since 1945 there has been reluctance to accept the notion of West Germany as just one more stable,

prosperous, highly successful democracy in a lucky community of democracies, living better than anyone else on Earth. Germans have said that the federal republic is "provisional" and unsatisfactory. Only a united Germany would not be provisional. But united within what borders? Germany's borders have never been all that certain.

The government doubly reiterates that the nation's frontiers remain legally unresolved and that the Willy Brandt government's recognition of the Oder-Neisse border with Poland binds only Bonn. A reunified Germany would have to reconsider.

That obviously is not meant to be threatening. Bonn constantly says that present borders could only change by peaceful agreements, in a Europe itself united and, it seems, in a giving mood. But this is sentimental nonsense and an evasion of the political facts created by Hitler's war and Hitler's defeat. The organizations of those deported 40 years ago from Silesia and East Prussia meanwhile go on holding meetings under provocative and politically nonsensical banners, and young nationalists write silly articles about German armies once again marching eastward.

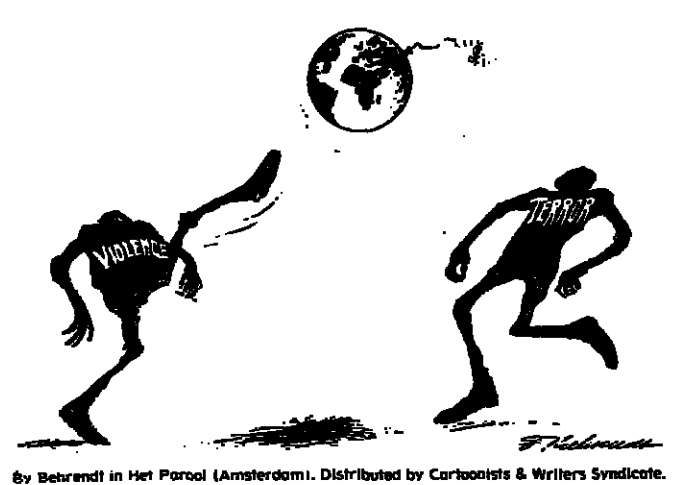
It is a troubling situation, which reflects real refusal to think through things being done and said. One perfectly understands the vulnerability of politicians to pressure groups. But the harping on how "provisional" everything is feeds that political romanticism, and lack of realism, which has been a powerful factor in the German past.

It surely is romanticism that drives the terrorists — these dreamers with bombs and guns, making a better world by destroying the one they have. One would like so much to see West Germans less discontent with what is and less concerned with what might be, or might not.

One wishes that Germans were more willing to defend the federal republic, its civilization, its accomplishments, its frontiers, and that fewer were willing to dismiss all that as "provisional." One wishes more attention were paid to what a sensible and distinguished historian of modern Europe, Peter Gay, himself born in Germany, has put this way: Even Schiller and Goethe, "in calling for something higher than politics, helped to pave the way for something lower."

International Herald Tribune.

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By Bechtold in Het Pool (Amsterdam). Distributed by Cartoonists & Writers Syndicate.

## A Case for Enlarging the Nuclear Club

By Ernest van den Haag

NEW YORK — Everybody opposes nuclear proliferation. The United States has signed lots of treaties against it but has had little success in stopping the spread of nuclear weapons. The few countries it has been able to prevent from acquiring them have been its own allies — including, notably, West Germany. In this it is making a serious mistake.

I myself would like to eliminate proliferation by disinventing nuclear weapons, but reality is otherwise. Not only the United States and the Soviet Union but also China, Britain and France are confirmed nuclear powers. Everyone would prefer that Pakistan, India, South Africa, Iraq and Israel not have nuclear weapons. But some of them already do, and the others probably will in a few years.

The United States has, however, been more or less successful in preventing its allies from acquiring independent nuclear forces. The French force de frappe is the one exception. Charles de Gaulle felt, realistically, that it was far from certain that any American president would risk the destruction of America to counter a Soviet invasion of France. Not surprisingly, the French want to defend France if necessary.

Is that necessary? Is it useful? Is it in the West German interest? Is it in the American interest?

One theory has long held that the more catastrophic the potential effects of nuclear weapons, the less likely they are to be used. Certainly this fear might prevent America from using them. But would such considerations stop Moscow? Might the Soviet Union not be willing to sacrifice part of its population in order to protect its leaders — or increase their power? I am not sure.

But this is only one of the reasons to question the theory of mutual assured destruction, on which American nuclear doctrine still rests. Technological developments that make it possible to target nuclear weapons

more precisely and, perhaps, to defend against them are slowly making that doctrine obsolete.

This in turn raises additional questions about U.S. nuclear weapons in West Germany. Should the United States continue to threaten total catastrophe in case of conventional or limited nuclear attack in Europe? How much longer is that threat likely to remain credible?

Not that West Germans want to control their own nuclear weapons. As much as they fear an American-Soviet confrontation, there is after all some small chance that it would spare West Germany. In contrast, direct West German nuclear resistance to a Soviet invasion would certainly devastate their country.

Nevertheless, it is not in America's interest to control the defense of any foreign country, be it West Germany, Japan or South Korea. Supply, yes. Support, yes. But not control — for control of another people's defense can only lead to a weakening of its own defense efforts. It is too easy for such dependent nations simply to leave it to Washington.

In such cases America often becomes a whipping boy for local pacifists and nationalists opposed to American efforts on their soil. Thus, in the end, the effort to provide others with a nuclear shield risks leading to a net decline in defense efforts against the Soviet Union.

Since proliferation of nuclear weapons is no longer avoidable, I think the time has come to allow and even encourage America's friends to have and control their own nuclear weapons, as America's enemies do.

The writer is professor of jurisprudence and public policy at the Fordham University Law School in New York. He contributed this column to The New York Times.

## LETTER TO THE EDITOR

### Arms Control Precedents

Norman Podhoretz's column "The Case Against Belief in Arms Control" (Jan. 25) is based on a historical fantasy. According to Mr. Podhoretz, during the 1920s and '30s the Western democracies made a series of arms control agreements with Germany and Japan, their "totalitarian enemies" of the time. At best those agreements failed to prevent war; at worst they lulled the democracies to sleep while the enemies cheated.

In fact there was no series of agreements with totalitarian enemies. As to Japan, Mr. Podhoretz apparently has in mind the naval treaties of 1922 and 1930, which kept the Japanese navy inferior to the British and U.S. navies in capital ships and cruisers, and which, together with promises not to fortify various Far Eastern possessions, tried to assure the security of all three parties in the Far East.

By no stretch of the imagination could Japan in 1922 and 1930 be described as totalitarian; it had an elected government and a functioning opposition. Further, the 1922 treaty was a real arms-reduction pact. Under it, the three largest naval powers scrapped a number of ships and abandoned large-scale construction plans. Nor did the Japanese cheat. In 1936 they simply allowed the treaties

to lapse and began an expansion program. Britain and the United States responded with their own programs. In Europe only one arms treaty between the world's great powers resembles Mr. Podhoretz's description. The 1919 Paris peace treaties disarmed Germany, Austria, Hungary and Bulgaria, but these restrictions were imposed, not freely adopted. The Weimar government did violate them in several ways but never became a military threat.

Shortly before Hitler came to power the nations of the world finally began discussing a general disarmament agreement in Geneva. An earlier accord would have vastly increased the Weimar Republic's prestige, but the talks were too late. Hitler pulled out quickly and began to rearm. The only arms control agreement that any democracy reached with a totalitarian state was the Anglo-German naval accord of 1935. Politically it was a foolish mistake on London's part, but if the Russians ever offered an agreement on similar terms, I suspect that even Mr. Podhoretz would be willing to accept it. The pact limited the size of the German navy to one-third that of the British.

DAVID D. KAISER  
Carnegie-Mellon University,  
Pittsburgh.



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EUROBONDS

New Issues Flood Market As Investors Hesitate

By CARL GEWIRTZ

International Herald Tribune

PARIS — An absence of investors and continued heavy supply of new issues made for a seriously congested Eurobond market last week. Investors moved to the sidelines, waiting for a clearer view following last week's quarter-point rise in the cost of short-term money. Late Friday, rates in New York eased a bit, sparking a rise in that bond market.

While many experts are convinced that the Federal Reserve is not aiming to drive rates higher, European investors took the view that they preferred to wait for convincing evidence of the Fed's intentions. According to Henry Kaufman, Salomon Brothers' economist, investors are best off waiting. He warns that "very troubling" levels of money-supply expansion in the United States oblige the Fed to maintain a policy of moderate restraint.

Borrowers, on the other hand, were in no mood to wait for clarification of the Fed's policy and launched \$1.28 billion worth of fixed-coupon straight Eurodollar debt. As a result, prices dropped throughout the week and ended significantly below the level at which underwriters bought the paper. Despite the steep discount, the new issues failed to attract bargain hunters.

Investors obviously believe that with the heavy volume of unsold bonds from previous weeks still on underwriters' shelves there is plenty of time to decide to buy. Those who want to increase their holdings find they can pick up paper with much more attractive yields in the secondary market.

"The new issues are not market-bearer deals" bearing coupons aimed to lure investors, snapped one lead manager watching from the sidelines. Rather, he said, the new-issue market has become "one big poker game" where underwriters bring issues mispriced by today's standards in the hope that subsequent declines in interest rates will make the paper look attractive.

This is what has happened so far this year, and the risk takers in January have been rewarded. But critics warn of a terrible shakeout in the underwriting community if rates do not renew their decline, and managers are left holding paper that can only be sold at a severe loss to themselves.

HOWEVER, so long as the underwriters' cost of borrowed funds to finance their inventory remains comfortably below the interest income received from their bond holdings, the bankers will be under no pressure to dump their stock. The most aggressively priced of last week's issues was Rockwell's \$300 million of seven-year paper bearing a coupon of 10 1/2 percent and priced at a token discount of 99 1/2. Dealers said the terms compared unfavorably with those available on seasoned paper in the secondary market where investors could buy seven-year paper yielding 11 1/2 percent.

But even Ford's \$100 million of 11 1/2 percent 10-year bonds failed to attract support. The terms were considered reasonable (the paper was priced at 99 1/2 to yield 11 1/2 percent). In the current gloomy outlook, some would-be investors said the terms are irrelevant because they just do not want to make new commitments, while others said that they could take their time about buying Ford and hope in the interim that its price would drop even further.

Ford was priced to yield 24 basis points over comparably dated Treasury paper, a saving of about an equal amount since it would have had to pay about 50 basis points more than the government to issue paper in New York. Rockwell, by contrast, was priced 35 basis points below Treasury yields. Both issues ended the week quoted at 97 1/2.

While the quoted prices on all the other new issues showed substantial discounts — Bergen Bank's \$75 million of five-year 11 1/2 percent notes were down 3 1/2 points from an issue price of 100 1/2 — worse yet were the issues for Japanese borrowers. Daiwa, lead manager for the offerings from Nippon Shinyaku and Orient Leasing (both \$50-million, seven-year issues carrying coupons of 11 percent) refused to even quote a price.

Until a month ago, Japanese issuers could count on selling dollar bonds at seemingly very unattractive terms and be assured of selling more than three-quarters of the issue to domestic investors. But while that demand has dried up, companies which

(Continued on Page 13, Col. 4)

Last Week's Markets

All figures are as of date of trading Friday

Stock Indexes

United States

Last Wk. Prev. Wk. % Chg.

DJ Index 1,289.97 1,277.77 +0.9%

DJ 100 1,280.00 1,268.00 +0.9%

DJ 200 1,280.00 1,268.00 +0.9%

S&P 500 1,280.00 1,268.00 +0.9%

NYSE Comp. 1,280.00 1,268.00 +0.9%

Value Line 1,280.00 1,268.00 +0.9%

London FTSE 100 1,280.00 1,268.00 +0.9%

Hong Kong Hang Seng 1,280.00 1,268.00 +0.9%

Japan Nikkei 225 1,280.00 1,268.00 +0.9%

West Germany DAX 1,280.00 1,268.00 +0.9%

Commerzbank 1,280.00 1,268.00 +0.9%

Non-U.S. Indexes from Japan, Korea & C. Ltd.

Money Rates

United States

Last Wk. Prev. Wk. % Chg.

Federal funds rate 8 8 0

Discount rate 10 10 0

Prime rate 10 10 0

3-month T-bill 7 7 0

6-month T-bill 7 7 0

1-year T-bill 7 7 0

3-month Eurodollar 7 7 0

6-month Eurodollar 7 7 0

1-year Eurodollar 7 7 0

3-month JPY 7 7 0

6-month JPY 7 7 0

1-year JPY 7 7 0

3-month DEM 7 7 0

6-month DEM 7 7 0

1-year DEM 7 7 0

3-month SF 7 7 0

6-month SF 7 7 0

1-year SF 7 7 0

3-month CHF 7 7 0

6-month CHF 7 7 0

1-year CHF 7 7 0

3-month GBP 7 7 0

6-month GBP 7 7 0

1-year GBP 7 7 0

3-month AUD 7 7 0

6-month AUD 7 7 0

1-year AUD 7 7 0

3-month NZD 7 7 0

6-month NZD 7 7 0

1-year NZD 7 7 0

3-month CAD 7 7 0

6-month CAD 7 7 0

1-year CAD 7 7 0

3-month SEK 7 7 0

6-month SEK 7 7 0

1-year SEK 7 7 0

3-month NOK 7 7 0

6-month NOK 7 7 0

1-year NOK 7 7 0

3-month ISK 7 7 0

6-month ISK 7 7 0

1-year ISK 7 7 0

Currency Rates

Official fixings for Amsterdam, Brussels, Frankfurt, Milan, Paris, New York rates at 4 P.M.

	\$	DM	FF	Yen	Sw. Fr.	GBP	DM	FF	Yen	Sw. Fr.	GBP
Amsterdam	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289
Brussels	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289
Frankfurt	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289
Milan	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289
Paris	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289
New York	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289
Tokyo	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289
Zurich	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289
1 ECU	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289
1 DM	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289	1.289

1 Short-term (1-3 months) 1.289

1 Commercial (3-6 months) 1.289

1 Long-term (1-3 years) 1.289

1 Very long-term (4-10 years) 1.289

1 Money market (overnight) 1.289

1 Treasury bill (13 weeks) 1.289

1 Treasury bill (26 weeks) 1.289

1 Treasury bill (52 weeks) 1.289

Citibank To Cut Off S. Africa

No More Loans After March 31

By Michael Isikoff

Washington Post Service

WASHINGTON — Citibank, acting under pressure from the New York City government, has declared that it will liquidate all its loans to the South African government by the end of next month and that it plans to make no more such loans "in the foreseeable future."

The new policy by the largest bank in the United States was disclosed in a letter from the bank's vice chairman, Hans A. J. van der Stoep, to the New York City comptroller, Harrison Goldin. It came amid moves by the New York City government to cut off hundreds of millions of dollars in city business from banks and corporations that maintain ties with Pretoria.

"This is kind of incredible, isn't it?" Stephen Matthews, assistant city comptroller, said of the Citibank letter Friday. "We were talking big bucks here, and money speaks. It's as simple as that."

It was not immediately clear how large Citibank's loans outstanding to the South African government are. Bill Koplowitz, Citibank's director of international public affairs, said Friday that the bank's last dealing with Pretoria came in October 1980, when Citibank lent the South African government \$50 million as part of a \$250-million loan made by a syndicate that included four European banks.

Mr. Koplowitz said he could not say how much of that loan was still on Citibank's books. He said the bank's loans outstanding to the South African public sector were "modest, dwindling and will be eliminated" by March 31. He declined to say whether that debt would be liquidated by selling it to other banks or by accelerated repayment by South Africa.

Citibank is the latest of several major U.S. banks that have moved in recent years to sever their dealings with the white minority government of South Africa. At least partly as a result, total U.S. bank loans to the South African public sector dropped from \$623 million in June 1982 to \$343 million in September 1984, Federal Reserve Board figures show.

Five states and at least 11 municipal governments have passed laws requiring the states and municipalities to divest at least some of their assets from banks and corporations that do business with Pretoria. Last summer, the trustees of the New York City Employees Retirement System became the largest U.S. pension fund to approve such a policy.

Had Citibank not taken the measures it announced last week, that policy could have required the pension fund to sell off about 222,800 shares of stock that it held in Citibank, Citibank's holding company, Mr. Matthews said.

Last week, Mayor Edward I. Koch of New York introduced a bill that in most cases would have prohibited city deposits in banks that underwrite securities or make loans to the South African government. This proposal could have affected about \$500 million in city deposits in Citibank, Mr. Matthews said. The bill was expected to be passed easily by the City Council.

Mr. Koplowitz declined to comment on whether the bank's new policy was a direct result of the New York City initiatives. He said it was reached by bank management after "an assessment of conditions that affect our business everywhere, both here and in South Africa."

He stressed that the move was part of a "continuous" evolution of bank policy relating to South Africa, in which Citibank has repeatedly tightened its criteria on the types of loans it will make there.

Iran Reported To Trim Price Of Crude Oil

Reuters

TEHRAN — Iran has reduced its prices for light and heavy crude oil, effective Feb. 1, a senior Oil Ministry official said Sunday.

The cuts reduce the price by \$1.05, to \$28.05 a barrel, for light crude and by 20 cents, to \$27.35, a barrel for heavy, he said.

Iran was one of three dissenters to the Organization of Petroleum Exporting Countries' new pricing structure, agreed to in Geneva in January. That included a \$1 cut in the price of Saudi Arabia's light crude to \$27 a barrel.

But some of Iran's customers said after the meeting that it would have to offer concessions to make its oil competitive. The new prices remain on the basis of customers bearing the cost of shipping from Kharg Island, Iran's main oil terminal, which has been the target of Iraqi air strikes.



Shoppers at Bigg's, the Cincinnati hypermarket run by a French-controlled company.

French-Run Hypermarket a U.S. Hit

Low Prices, Range of Goods Lure Cincinnati Shoppers

By Steven Greenhouse

New York Times Service

CINCINNATI — With its 40 checkout lanes and 75 aisles, the new Bigg's "hypermarket" here could well be called the Mount Everest of U.S. supermarkets.

The bustling store, 150 yards (137.2 meters) long, sells everything from cucumbers to computers, poultry to pocketbooks, delectable to delectable. With 60,000 items on sale, four times that of most supermarkets, Bigg's is as much a jump from the typical supermarket as the supermarket was from the mom and pop grocery.

"We're neither a supermarket nor a department store," said Stuart M. Robbins, an analyst with the Donaldson, Lufkin & Jenrette Securities Corp. "The nation is pretty saturated, well stored with supermarkets. There are already a lot of merchants with very aggressive pricing policies."

But Mr. LeFoll is confident that Bigg's, which has 800 nonunion employees, can succeed through its blend of low pricing and high visibility. That formula has succeeded for hypermarkets in Europe, but there they did not have the severe discounting competition that they face in the United States.

So far, Mr. LeFoll said, Bigg's has far exceeded expectations. Since it opened in October, it has averaged more than 50,000 shoppers a week — more than five times the draw of a normal supermarket.

(Continued on Page 17, Col. 1)

Bonn Struggles to Control Near-Record Unemployment Rate

By Warren Giedler

International Herald Tribune

BONN — Ask Chancellor Helmut Kohl how he plans to tackle West Germany's unemployment problem and he will tell you the result of regional and demographic factors and cannot be solved "overnight."

But in several public appearances lately, Mr. Kohl has given evasive replies to reporters' queries whether his government has any real policy to combat unemployment other than through a projected 2.5 percent rise in West Germany's gross national product this year.

The opposition Social Democratic Party is taking Mr. Kohl and his economics minister, Martin Bangemann, to task for what it sees as an insufficiently active posture by the center-right government on bringing down the near-record number of jobless, measured at a seasonally unadjusted 10.6 percent in January, up from 9.4 percent in December. That 10.6 percent translates to 2.62 million people out of work in January.

In a policy paper presented to the Bundestag last week by two Social Democrat deputies, Egon Fuchs and Wolfgang Roth, the opposition party said the expected economic

IBM Readies Potent New Computer

Reuters

BOSTON — International Business Machines Corp. is poised to announce its most powerful computer yet, industry analysts said Sunday.

IBM announced last week a double-capacity disk drive, a very high-powered storage device. As a result, analysts advanced their forecasts of the introduction date of the long-awaited Sierra. Some say there are strong indications that it could be as soon as Tuesday.

Sierra's introduction is expected to be the major event in the computer industry this year. Jay Stevens, computer analyst with Dean Witter Reynolds, predicted the Sierra "will permanently change the nature of the large processor market."

It is also expected to put pressure

West, Japan Hold Talks on Trade

Agence France-Press

KYOTO, Japan — Top trade officials from the United States, Canada, Japan and the European Community began discussions here Sunday on how to halt protectionist sources close to the talks said.

They also discussed starting a new round of worldwide trade negotiations, the sources said. The officials at the two-day meeting in Kyoto are the U.S. trade representative, William E. Brock; Canada's minister for international trade, James Keleher; the EC commissioner for external relations, Willy De Clercq; and Japan's minister of international trade and industry, Keiji Murata.

The four agreed on the need for an early start to a new round of talks under the auspices of the General Agreement on Tariffs and Trade, to succeed the Tokyo round that will be completed in 1987, the sources said.

The sources quoted Mr. Murata, who chaired the meeting, as saying that the big question in promoting the proposed new round of talks

was how to include developing countries in them. The Japanese minister also stressed a need for a mid- and long-term strategy to adjust industrial structures and check erratic fluctuations in exchange rates, the sources said.

Growing problems of external debt and other macroeconomic factors should also be tackled to roll back trade-protectionist moves, he said.

The sources quoted Mr. Brock as saying that services and high-technology products should be included in the new round of trade negotiations, which he said should start as soon as possible and include as many nations as possible.

The Kyoto meeting would provide a chance to spell out coordinated action to roll back protectionism, analysts said. But Japanese officials said the meeting amounted only to an exchange of views on broad themes.

The Japanese minister also held separate talks lasting 90 minutes with Mr. Brock, and was expected

Latin Debtors To Ask IMF for Better Terms

By Keith Grant

Reuters

SANTO DOMINGO, Dominican Republic — Latin American debtor nations have ended a two-day meeting by reaffirming their basic demands for easier payment terms but warning that their moderate stance may change if no progress is made in meetings in the next few months.

The 11-nation Cartagena group, meeting here for the third time, called Friday night for improved repayment terms of the region's \$360-billion debt for all countries and measures to ensure economic and social stability.

It agreed to channel its initiative through the interim committee of the International Monetary Fund and the World Bank's development committee, which are meeting in April.

Calls from Argentina and some other countries for early direct talks with the major seven industrial nations were not adopted but a communiqué said they will be invited to high-level talks after the IMF and World Bank meetings.

If Western nations snub this initiative "there will be a serious risk to economic, social and political stability throughout the region," the communiqué said.

Ministers said the Cartagena group would tailor its future attitude, particularly in a submission to the summit of Western nations in Bonn in May, according to the response from the Washington meetings.

However, ministers were reluctant to spell out whether the group would get tough if its calls for dialogue were ignored.

"It is better not to comment on this possibility, but in any case we are reasonably confident that the industrial countries will respond," Brazil's finance minister, Ernane Galvès, said in an interview.

The Cartagena group will resume discussion of its proposals at the annual meeting of the Inter-American Development Bank in Vienna on March 22, and will submit them together with a technical document to the group of 24 leading industrial nations in Washington on April 15.

The document will emphasize the Latin American region's insistence that the debt problem is not yet resolved in spite of progress made by some countries.

[Mexico's finance minister, Jesús Silva Herzog, told reporters, "The debt problem is not solved and it is not business as usual again," the Los Angeles Times reported from Santo Domingo.]

[Daniel Caputo, the foreign minister of Argentina, said, "What we are seeking from the industrial countries is the acceptance of the need to place the debt discussions in the framework of a political dialogue. The issues involved can't be limited to negotiations with bankers."]

[The refusal of the Reagan administration to give the Latin American debt "political status" has been a principal obstacle to a broadening of the debt negotiations to include governments, which control trade policies, interest rates by central banks and contributions of capital to institutions, such as the World Bank, that offer loans for development, the Los Angeles Times reported.]

much significant reduction in the jobless rate," Mr. Gattenger said in an interview.

The unemployment rate in February, likely to be fueled by continuing problems in the construction industry where nearly 500,000 people are out of work, could well stay above 10 percent of the total work force, he said.

Mr. Gattenger said the Economics Ministry is "misleading the public at large" by saying joblessness can be cut by 100,000 this year through the expected rise in GNP.

"No way are we going to see 100,000 fewer jobs this year," he said. "At best we may see a marginal decrease of some tens of thousands."

Mr. Gattenger said his institute believes that there is a chance of pushing down average unemployment in the next two to three years to about 7 percent of the work force. To reach that goal, he says, steady economic growth of 3 percent is necessary, as is a reduction of working hours throughout West German industry — modeled after agreements reached by employers and the metalworkers union last summer for a 38-hour workweek — and a continuation of the government's early retirement program.

In addition, the economics minister, Mr. Gattenger, said, the government must

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# PERSONAL INVESTING

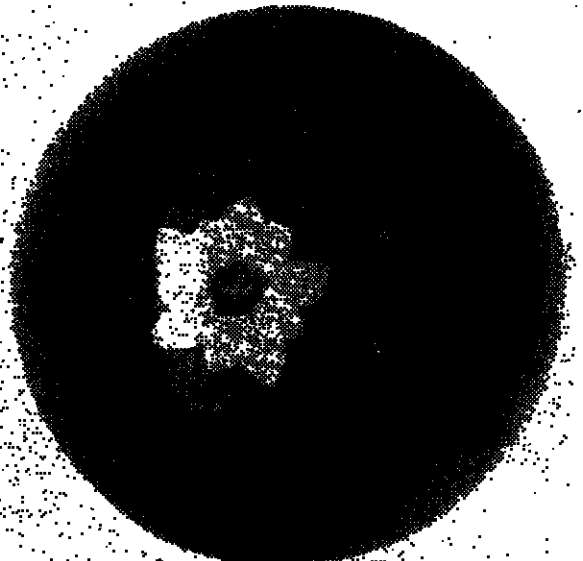
## INVESTOR'S Notebook

### Making the Most Of a U.K. Rate Rise

The Thatcher government's strategy to defend the pound through higher interest rates has sent a shiver through British markets. But Michael Jankowski, chief bond economist at Simon & Coates in London, regards the rate rise as an investment opportunity. Far from bemoaning the recent 2-point increase in base lending rates, Mr. Jankowski says it gives investors a chance to lock in attractive yields and position themselves for a rally in U.K. government bonds, called gilts, when rates fall later.

Yields on gilts of 15-year maturity are running at 11.5 percent on a semiannual basis, slightly higher than comparable U.S. Treasury debt, he notes. Given the usual relationship between U.S. and U.K. bonds, the "gilt market has great scope for a reduction in yield," he argues. With British inflation at about 5 percent a year, real yields are high. Also, "the perception right now is that sterling is undervalued on any basis," he says.

He expects the government to let interest rates ease downward as soon as practicable, setting the stage for sharp increases in gilt prices. On the basis of price alone, the U.K. bond market could outperform the U.S. bond market by as much as 11 to 12 percent, he estimates.



A rare St. Louis blue-ground bouquet weight

### A Major Auction Of Paperweights

Collectors of Old Masters have their Rembrandts, sculpture devotees their Rodins. But it is the Clichy, St. Louis and Baccarat that excite a serious student of paperweights. These are the three glassworks in France that produce the most sought-after paperweights. Their pieces, experts say, are considered essential for a serious collector.

On March 14, Christie's will hold an auction in New York of Clichy, St. Louis and Baccarat works acquired by the late R. Henry Norweb, former U.S. ambassador to Paris and other European posts. Mr. Norweb assembled an impressive collection of paperweights from around the world.

Initially, paperweights were used for purely practical purposes in the 19th century. But as glassmakers became more elaborate and colorful in their designs, paperweights gradually were moved from desk tops to display cases.

Although paperweights have been the object of serious collecting since the early 20th century, interest was revived in 1979 when the Gingham Weight, a focal design by St. Louis, fetched \$100,000 at a London auction. Rachel Russell, a ceramics and glass specialist at Christie's, says prices of \$10,000 to \$20,000 for the weights are not uncommon.

### Dollar Surge Hurting New York Apartments

Politicians and bankers are not the only ones howling about the run-up of the dollar. New York City real-estate agents are complaining that the currency's record performance is discouraging foreign investors from buying luxury condominiums.

Luxury buildings like the Trump Tower, Trump Plaza and Park Tower, where apartments range from \$300,000 to over \$1 million, still report good sales. But New York brokers say a drop in the number of foreign buyers has contributed to a significant slowdown in the rate of appreciation on luxury condos.

"Three years ago, we sold at least half of the Trump Tower to foreigners," says Jacquelyn Sonnenberg, a sales representative for the Trump Organization. "In the last 18 months it's been strictly Americans."

For 1985, Marc Broxmeyer, a partner with Bellmare Inc., estimates that the annual return for condominiums priced over \$1 million will fall to 10 percent from 15 percent to 20 percent in 1984. The appreciation of condominiums selling in the lower price range of \$300,000 to \$600,000 is higher, but brokers doubt that returns will match last year's 30 percent to 40 percent.

A lower rate of appreciation, brokers warn, could sour the appetite for million-dollar condominiums even more. Unlike cheaper condominiums, it is difficult to rent luxury apartments at a monthly rate that covers an investor's overhead.

### Next Month

The big investment houses worldwide produce a bewildering array of research for investors and the professionals who advise them. Investors often complain that the endless reports on markets and companies offer them little substantial guidance, while the analysts say their role is misunderstood. In its March 11 issue, *Personal Investing* will look at how research is carried out and its usefulness to the investor.

Also next month: The attractions of Swiss financial stocks and the economics of stamp collecting, plus regular features such as *Chart Talk* and coverage of international funds.

*Personal Investing* is published on the second Monday of the month. Readers are urged to make the appropriate inquiries before committing funds to any investment.

## Penny Stocks: Tales of Peril And Profits

By John Meehan

**I**N 1982, Falcon Sciences Inc. looked like an exciting opportunity for bargain-conscious investors. The small New Jersey company had obtained a license to develop and market a method using steam to enhance oil-well production. Though inexperienced in the field of new technology, company announcements indicated that everything was going smoothly. Falcon even managed to clinch a few promising agreements its first year out.

And while the background was attractive, the price was outright seductive. In the space of a year, Falcon's share price went from a meager 20 cents to over a dollar in over-the-counter trading. And the upward momentum showed no sign of slowing.

Falcon looked too good to be true. Investors at the Securities and Exchange Commission thought so too. After a closer look at Falcon, they came away with a picture that differed decidedly from the company's public image.

Falcon, according to an SEC investigator, was not the growing technology concern it appeared to be. Progress reports put out by the company were misleading and its transactions of questionable value. And instead of earning a living from engineering expertise, the commission said, a substantial portion of Falcon's revenue came from other sources, including a couple of gasoline stations in Arkansas.

It was all part of an elaborate charade, the SEC alleged, to increase demand for Falcon shares and inflate the price. When market sentiment was ripe, according to investigators, company officials sold stock from a cache of bogus shares they had tucked away, much of it in accounts with American brokerage houses in Switzerland. More than three million unauthorized, possibly counterfeit, shares were sold to investors in the United States.

Last year a federal judge ruled that company officials had violated U.S. securities laws, and he froze Falcon's assets. The case is still pending and the SEC is trying to recover money from the illicit stock sale. More importantly to shareholders, trading in Falcon stock has been suspended since last May.

While the scope of the Falcon case is unusual, it illustrates the kind of recurring abuse found in the free-wheeling penny-stock market, where bargain prices and get-rich-quick schemes lure thousands of investors each year and where unscrupulous

operators have earned the market an uncommon notoriety.

"The penny market" is a term broadly applied to new and speculative issues in the United States that sell for no more than \$5 a share and often for just a few cents. Most are shunned by the Wall Street establishment and find their way to the over-the-counter market with the help of regional underwriters.

While the debate over the legitimacy of penny stocks as an investment continues to rage, there is no disputing the public's fascination with the pennies. Given their humble beginnings, penny stocks have a lot more room for price movement and pack more of a thrill than blue chips. It is not uncommon for some penny stocks to double in value overnight. Moreover, if a fledgling company survives the bumpy transition to a going concern, the gains can be staggering.

River Oaks Industries, a mobile-home manufacturer based in California, is a legend in the market. It began trading over-the-counter at 50 cents a share in 1980 but has since climbed out of the

penny league and goes for more than \$7 on the New York Stock Exchange.

"A lot of people think they can make quick profits at these low prices," said R. Max Bowser, publisher of *The Bowser Report*, a monthly penny stock newsletter. "But the real successful players in the market are not only selective but have a lot of patience."

The penny-stock market has gone through a lot of changes since turn-of-the-century gold and silver prospectors in states like Colorado and Utah, far from the established markets back East, distributed penny shares to local townfolk to raise cash. While Denver, Colorado, is still considered the mecca of five-and-dime stocks, the emergence of New York, New Jersey and Florida as new-issue centers has considerably altered the market.

The oil and mining stocks that dominated the market for the better part of its existence are no longer its mainstay. The penny market has given way to more trendy issues. High-technology and home-health-care stocks are now the rage.

Still, one similarity binds today's pennies with (Continued on Page 10, Col. 1)



## U.S. Takes Another Swipe at Secrecy

By Robert C. Siner

**T**HE simmering feud between the United States and foreign investors over the issue of bank secrecy and tax evasion has erupted anew.

This time, the parties are skirmishing over a U.S. Treasury proposal to tighten proof-of-residency requirements for foreign purchasers of American securities. In effect, the plan would require foreign investors in U.S. stocks and bonds to provide residency certification from their governments.

Under current law, foreign owners of U.S. stocks and bonds are subject to a 30-percent withholding tax on interest and dividend payments. Withholding on interest from bonds issued after July 18, 1984, has been repealed.

Many people, however, avoid the deduction or qualify for a lower withholding rate through a network of tax treaties between the United States and about 30 nations. All of Western Europe and Japan have such agreements with Washington. For example, West Germans have only 15 percent of their dividends withheld.

It is relatively easy to benefit from treaty provisions. Buyers need only state that they are not U.S. residents and provide a foreign address. Many times they can simply purchase stocks through a bank in a treaty country and be taxed as a resident of that nation.

Treasury officials contend that the regulations are being abused. They suspect that Americans are using foreign banks as a tax dodge and that residents of non-treaty countries are purchasing U.S. securities through banks in nations that qualify for reduced withholding. Moreover, tax evaders are difficult to catch because secrecy laws in many countries prohibit banks from providing information about a purchaser without client consent.

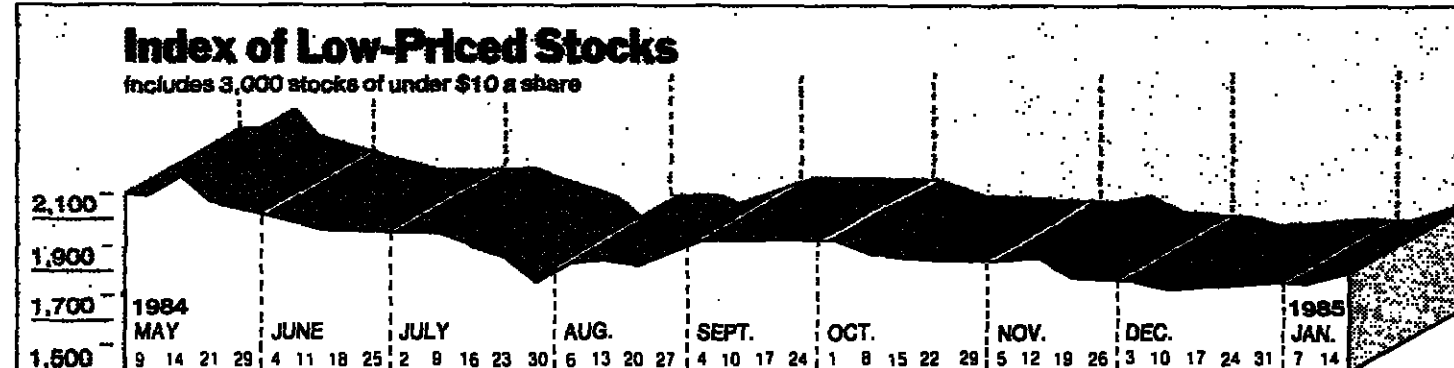
To counter such abuses, the Treasury wants foreigners to prove their residency. Under the proposal, overseas investors would have to submit a certificate of residency stamped with the official seal of the foreign tax authorities each time they purchase a U.S. security. The documentation would be required for all U.S. stocks. It also would affect interest payments from bonds issued before last summer's decision to eliminate withholding.

It is part of "an overall program to try to close up some of the more obvious areas of abuse," according to an official at the Internal Revenue Service. "What we're saying is if you claim benefits in a country, then you certify that's where you live."

Not surprisingly, the proposal has drawn strong criticism from foreign banks with customers who want to remain anonymous. They argue that they cannot comply with certificate-of-residency requirements without violating the laws of the countries in which they operate.

"The Swiss in particular weren't too happy," a U.S. official said.

Also trapped in the middle are U.S. banks (Continued on Page 12, Col. 3)



## FUNDS

### Channel Funds Are Back

By Lynne Curry

**A** VIOLENT swing in exchange rates, such as the dollar's latest surge, can wreak havoc on the best laid investment plans. It is little wonder that offshore currency funds, which were stung by British tax changes in 1983, are again beckoning anxious investors.

By some estimates, there is well over \$1 billion in these offshore funds, which are principally based in Jersey and Guernsey in the Channel Islands. The funds, which are usually set up by banks, operate much like a money-market mutual fund. They sell shares denominated in a variety of currencies and place the proceeds in the interbank deposit market and a wide array of money-market instruments.

"They offer a high degree of flexibility, access to cash and, in a particular week, if one is not bothered that he may not get the finest rate on every currency, they are superb vehicles," says Martin Simulian, financial director of Bishop Cavanaugh Ltd., a British financial consultancy. "Overall the mechanism is excellent."

In general, the funds offer better rates than an individual could obtain at a local bank for smaller, short-term deposits, along with having the flexibility to switch among currencies easily. By pooling investors' money and placing it in a variety of instruments and currencies, the funds can also reduce the risk of sharp exchange and interest-rate movements. Here are some of their main features:

- Investors can choose a fund in which the underlying deposits are in a single currency or a fund that is made up of a basket of currencies selected and managed by the fund's bank. In single-currency funds, most banks offer shares denominated in the U.S. dollar, the British pound, the Deutsche mark, the Swiss franc and the yen. For the managed multi-currency funds, shares are usually denominated in pounds, dollars or Deutsche marks, though the underlying fund assets can be in a wide range of currencies.

- For tax reasons, funds are further divided into "distributor" funds, which pay dividends every six months, and "roll-up" funds, which accumulate interest earned.

- Share prices vary widely, but all are geared primarily to the individual investor. A share in Citibank (CI) Ltd.'s Citifunds is about \$10, while shares in Schroder Money Funds Ltd. cost about £10,000 (\$11,250). A typical currency-fund deposit is between \$1,000 and \$6,000.

- Fund management fees charged by the banks range from a half of one percent a year to as much as 2 percent a year, with the managed funds charging the higher fees. These fees can have a big impact on a

### Top Performers

The 10 offshore currency funds with the best total return in 1984. Both capital gains and dividends were taken into account regardless of the fund's stated objectives.

	1984	Last 2 years
Geofund Liquid Assets U.S. Dollar (Accumulation shares)	11.2%	21.9%
Geofund Liquid Assets U.S. Dollar (Income shares)	11.2	21.9
Liquibank (Julius Baer) U.S. Dollar	11.2	21.1
Schroder Money Funds U.S. Dollar	10.4	19.4*
Fidelity Dollar Savings Trust U.S. Dollar	10.3	20.1
County Bank Currency Fund U.S. Dollar	10.2	16.0*
Standard Chartered Offshore U.S. Dollar	10.2	13.0*
Old Court Int'l Reserves U.S. Dollar	10.1	19.9
Lazard Brothers Int'l Assets U.S. Dollar	10.1	19.4
Hill Samuel Int'l Currency U.S. Dollar	9.9	19.3

\* Not in existence for the entire period measured  
Source: Lipper Analytical

fund's attractiveness. "The return is influenced by whether there is a high management charge," said Peter Scott, a director of Gartmore Investment. "It takes a long time to recoup some charges."

- Some funds impose a sales charge, called a front-end fee, especially for managed funds. For example, the Geofund Liquid Assets fund, managed by Manufacturers Hanover Investment Management Ltd., charges one percent of the initial investment, while Rothschild's Old Court International Reserves Ltd. charges 3 percent.

- Procedures for redeeming the shares are fairly standard. In most cases, there is no minimum or maximum holding time, but most banks will require at least a two-day settlement period, the normal

(Continued on Page 10, Col. 6)

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## THE BOURSES

Penny Stocks:  
The Ultimate  
Speculation

(Continued from Page 9)

their forebears: risk. Most companies trying to raise capital through penny issues are long on ideas and short on assets.

Many are trying to sell a product or service that is little more than a gleam in someone's eye. For example, a July 1983 prospectus for a California company stated, "The company does not know what business it will engage in, has no plan of operation other than it will not engage in exploration for oil and gas, fuel distribution or minerals extraction business."

Irving Hale, executive vice president of R.B. Marich, a penny broker in Denver, acknowledged that, "When you talk about penny stocks, you're talking about the speculative to the highly speculative. We strongly discourage the widow and orphan types from playing the market."

Indeed, start-up companies have a high mortality rate. About half go bust within the first five years, and its no accident that these casualty-prone stocks gravitate to the lower end of the price range. Companies with no pasts and uncertain futures often find investors a lot more receptive when selling 100 million shares at 10 cents each rather than 100,000 shares at \$10 apiece.

Those in the industry acknowledge the problems but say that critics are ignoring a key role the market plays. "Small businesses don't have an easy time getting funded," said Theodore Abruzzese, president of Wall Street West, a leading penny-stock underwriter. "Wall Street won't bother with them, so where can they go? There is a crying need for this market."

Moreover, Mr. Abruzzese points to an "underlying consumer demand" for penny stocks. "Penny stocks will continue to thrive as long as people want them," he said.

Nowadays, the market is at a low point. A combination of adverse publicity, regulatory crackdowns and the uncertain mood about equities that prevailed last year has depressed the prices of penny stocks. Several penny brokers have been forced to close and the number of new companies going public has significantly fallen.

Yet there is still interest among investors, especially when the stocks are at a few cents a share. Some market observers say if there is a rally on Wall Street this year, the bullish fervor is bound to trickle down to the speculative end of the market.

"I don't have a crystal ball, but I do know the market always comes back," said Terry Freeman, publisher of the National OTC Stock Journal, which covers low-price, over-the-counter stocks. "Low priced stocks are noted for their boom-and-bust cycle."

Critics agree that there is potential in the market for a careful investor. "If you're not willing to do your homework, don't play the market," Mr. Freeman advised. "If you're not prepared to wear some armor, you're going to be slaughtered."

Among the more prevalent abuses to watch out for are brokers' claims to favorable insider knowledge about a new issue. Some brokers promise clients unattainable results to make a sale. Failure by the underwriter to disclose all information about a company is another common problem. There have been cases in which companies never stated the full extent of their debts and handed over the receipts of a public offering to creditors, leaving shareholders with worthless certificates.

In addition, the very fact that these stocks sell for pennies makes them vulnerable to price manipulation. Regulators say there have been instances in the past when two or more underwriters concurrently buy and sell equal amounts of stock after a public offering to give the appearance of market activity and to raise the share price. Then they sell off quickly and the stock collapses.

"It's a lot easier to push up the price of a \$1 stock than something that sells for \$50," noted Anne Flannery, associate regional administrator for enforcement in the New York office of the SEC.

Penny shares fall victim to abuse because little is known about most of the companies. Information on start-up companies is nil. Even information on the selling price of a stock is hard to come by.

Initially, many penny shares do not qualify for the



Anne C. Flannery

National Association of Security Dealers' automated quote system, where trades and prices are recorded on a computer. Most trade through "pink sheets," price tables issued once a day. The sheets do not quote every stock every day, however.

"There is no instantaneous reporting," Miss Flannery said. "No one really knows on a timely basis who is buying or selling a stock." Moreover, she said, investors seem less inclined to press for information when spending only a few cents a share.

Aside from a close reading of the prospectus, one method of limiting vulnerability in the market is to spread the risk among several stocks. A diverse portfolio of as many as 20 penny stocks is not uncommon. A handful of penny-stock funds are available but their recent performance has generally reflected the weakness in the market.

Some analysts also urge investors to avoid issues that seem to have an infinite amount of shares outstanding. This

There is no disputing  
the public's fascination  
with penny stocks

is a common occurrence in the penny markets where underwriters price an issue low enough to attract attention but are forced to inflate the size of the offering to raise sufficient capital. Earnings of \$2 million, not bad for a start-up company, can be meaningless if distributed among 50 million shares.

Some penny professionals stay away from new issues, especially ones that go for just a few cents a share. Although some show the quickest appreciation, many fall prey to short-term speculators, who have traditionally prowled the market.

"Suppose something goes public at 10 cents a share, begins trading at 30 cents," Mr. Bowser explained. "By the time it reaches 30 there is already some selling and at 50 cents a [speculator] has sold out and is chasing something else."

Mr. Bowser prefers "minipriced" stocks that range from \$1 to \$3. These have usually withstood the initial speculative battering and have developed some kind of track record.

And instead of depending on a price/earnings ratio that is often meaningless in the new-issue market, he uses an asset/liability ratio to make sure he is buying into a viable concern and not an overly burdened business headed for failure. Mr. Bowser thinks a ratio of 1.8 is the minimum acceptable. For example, if a company has \$1 million in liabilities, it better have almost twice the amount in assets.

The hottest category in the market currently is health care, according to Mr. Bowser. He likes Cosmopolitan Care Corp., which provides a home-health-care service. It went public last May at \$2.50 per unit, which included a share of common stock and a warrant to buy another share. It is now trading at more than \$3 on the American Stock Exchange. Allied Nursing, another Bowser favorite, went public last year at \$1 a share. It is now trading over-the-counter at around \$1.60 bid.

Bill Matthews, publisher of Cheap Investor, a Chicago-based newsletter, has a slightly different strategy. He prefers stocks that have been around for awhile, especially former high flyers that have stumbled into the ranks of the pennies.

A recent favorite has been American Motors, which slumped to a low of \$3.25 on the New York Stock Exchange. Mr. Matthews reckoned that it was due for a turnaround, and it is now trading around \$4 a share.

While many people in the penny market may find his approach unorthodox, Mr. Matthews contends that his Blue-Chip index, made up of 27 out-of-favor stocks that traded for under \$10 a share, has risen by more than 180 percent since 1981.

"I'd say 90 percent, no 95 percent, of penny stocks are junk," Mr. Matthews acknowledged. "But that still doesn't mean that there isn't quality out there."

## Scouting Has-Beens in London

By Lynne Curry

"Start ups" and "turn-arounds" may be the buzz words of the U.S. penny-stock market, but it is the "has-beens" that give the London counter-part a special flavor.

Smaller, but no less hazardous than the U.S. market, the London penny-stock market has its share of companies looking for venture capital by issuing bargain-priced shares. But it is the old, ailing giants that are the main attraction.

Many of these concerns were once profitable engineering or industrial companies that fell victim to the recession in the early 1980s. Some are simply shells with little or no assets.

Typically, the companies' misfortunes are mirrored in

their share prices. Prices range from 10 pence (11.2 cents) a share to 25 pence for the some 300 stocks classified as pennies, although a few trade for as much as 50 pence.

Occasionally one of the companies recovers, but investors generally are not looking for a comeback. Rather, it is the possibility of a takeover that intrigues speculators—private companies in Britain find it less expensive to acquire an existing company rather than go through the expense and paperwork of going public.

The classic penny stock in London is Polytek. The company was a small, unprofitable textile maker with a market price of about 12 pence when Asif Nadir, a Turkish-Cypriot entrepreneur, bought it out in 1980.

Mr. Nadir subsequently used the company as a vehicle to develop his citrus packaging and packing plants in Northern Cyprus and Turkey. Later, he revived the company's former textile business, and the share price soared to 3,550 pence in 1983.

In January, 1984, Polytek shares split 10-for-1; the stock is currently trading in the range of 235 pence. □

Foreigners Climb Aboard  
The Rally in Frankfurt

By Warren Getler

THE Frankfurt Stock Exchange, once regarded as one of the stodgiest markets in Western Europe, has taken on an air of excitement.

The Commerzbank Index of 60 leading shares, which closed 1984 at an historic high of 1,107.9, continues its record pace. The index climbed to a high of 1,171 on Jan. 23 and, although it has since fallen from that peak, is expected to push past 1,200 without much resistance in the coming months.

"We're confident that upward trend will continue, showing a gain of 10 percent on the year," said Wolfgang Otto, executive vice president at Commerzbank.

In explaining their *zueversicht*—the German equivalent of bullishness—brokers and analysts cite several anticipated economic benefits. Steady, non-inflationary growth of around 3 percent, a 10-percent increase in corporate earnings and expanding capital investment are projected.

Rising interest rates, however, spoil an otherwise favorable economic picture. A half-point increase in the Lombard rate to 8 percent Feb. 1 was a setback to the market. Investors fear the Bundesbank may push rates even higher to defend the mark against the dollar.

Ekkehard Scheid, a partner at PM Portfolio Management, a Munich-based underwriter, warns that rising rates could in effect put a lid on German stock prices.

An intriguing aspect of the Frankfurt rally is the depth of foreign participation. German stocks have never had a reputation for attracting the interest of foreigners the way U.S. and Japanese shares have.

The Frankfurt market is dominated by big, closely held companies. Share prices rise and fall at a snail's pace, and there is not a lot of opportunity for bargain hunting. Smaller companies have traditionally shunned the equity market as a source of capital, relying on bank borrowing instead.

Nevertheless, foreigners accounted last month for more than half of all stock purchases, and money continues to pour into German stocks from abroad. Much of it is from U.S. pension funds managed in London.

In large part, the new fascination with German equities stems from concern about the dollar. The Deutsche mark is seen gaining most from a weaker dollar, and investors in German securities are clearly attracted by the prospect of reaping huge currency gains. In the meantime, the mark's relative weakness is benefiting German exporters.

Some investors outside Germany hope the influx of foreign investors will live up to the market. There are some signs that the environment there is changing. By German standards, last year was unusually active for new issues. Both Nixdorf and Porsche turned to the stock market rather than to banks for funding.

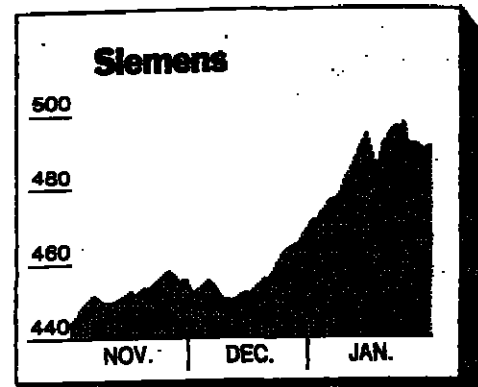
Regardless of the motives of foreign investors, analysts say that their interest has played a key role in the current rally. They will continue to provide a helpful nudge to the market, analysts say, providing the mark stays weak against the dollar.

"If the dollar drops, possibly as a result of coordinated central-bank intervention and interest-rate hikes, we'll see heavy profit-taking here and the index will fall," cautions Dietmar Viertel, analyst at Trinkhaus & Burkhart, a Düsseldorf-based private bank.

Timothy Plant, a German market specialist at E.B. Savory Millin in London, believes the German market is experiencing the second leg of a rally that began in September 1982 and resumed after the metalworkers strike last summer. This conforms with the historic German pattern of bull markets lasting two to three years.

"I'm recommending the phalanx of stocks that will be leading German economic growth in 1985: broad-based exporters and manufacturers of capital goods, especially machinery and electronics," Mr. Plant said. Exporters, he added, should not have a disproportionate amount of their business in the United States.

Analysts agree when it comes to identifying issues to avoid in 1985, a year when consumer demand is expected to remain depressed as unemployment con-



The sharp rise in Siemens shares.

tinues to hover around 9 percent. Department stores and home construction shares top the list of untouchables.

Siemens, the electronics giant, is a favorite among market watchers for 1985. Its share price has pushed past a record 500-DM level from lows of 350 last July. The company also is increasing its dividend for the first time in more than 12 years, to 10 DM from 8 DM.

Standard Elektrik Lorenz, the West German subsidiary of ITT Corp., could see its share price surge steadily in 1985, according to some analysts. The company is bouncing back from several disappointing years with the help of major infusions of investment capital from the U.S. parent. SEL's price/earnings multiple, however, hovers around 24, too high for many potential buyers.

As for the hot high-technology electrical stocks, Nixdorf and Philips Kommunikation Industrie, analysts are recommending a more cautious line. The markets for these shares are thin and their multiples are over 20, considerably above market averages.

Karlfried Sanner, a Deutsche Bank analyst, takes a slightly contrarian view, however. He points out that Nixdorf, the market's only true computer company, has more opportunity to benefit from an upward trend in the industry than bigger, more diversified Siemens. On the other hand, Philips Kommunikation has simply exploded to the 700-DM level from 400 in July and is bound for a major consolidation, says Margot Schoenen at Westdeutsche Landesbank in Düsseldorf.

Paralleling electricals as top buy recommendations are machinery makers, including KHD, Linde, GHM and Deutsche Babcock. The latter two are favored by Mrs. Schoenen because of their greater turnaround potential in profit performance. Babcock, for instance, is restoring a dividend after a two-year hiatus.

A third broadly recommended group is the financial sector, including the three major commercial banks and several insurance companies led by Allianz Versicherungs.

Market analysts hold mixed views of the chemical and automobile sectors, both of which had strong profit years in 1983 and 1984.

The big three chemicals, Bayer, Hoechst and BASF, are not my first choice to buy this year in so far as they won't be the nation's growth leaders," said Mrs. Schoenen of Westdeutsche Landesbank. They may be able to maintain the fantastic profits posted last year but earnings are not likely to go higher, she said.

Commerzbank's Mr. Otto is bucking the skepticism about big chemicals and is strongly recommending Hoechst, Bayer and BASF because their shares are undervalued, selling at P/E ratios of below 6. In addition, the three may increase their dividend on 1984 results by 2 DM, a mark more than originally projected.

Auto issues, with the exception of the widely sought blue chip, Daimler-Benz, and the dynamic new listing, Porsche, are not being recommended strongly this year by brokers because of trouble surrounding the emission-control debate in the home market and in anticipation of slackening foreign demand. □

## Sorting Out the Channel Funds

(Continued from Page 9)

practice in foreign-exchange markets. A few stipulate seven day's notice.

Switching shares from one currency to another usually involves a two-day settlement period starting from the time the order is received. A few banks make it easier on investors by allowing them to switch by telephone.

While switching sounds like a good strategy, in practice it is notoriously difficult to get both the timing and the currency right. Even professionals who guide the

multicurrency managed funds have trouble timing currency switches.

The clear winners this past year were those investors who switched from any European currency to the U.S. dollar and back. Italian lira and French franc shares also fared reasonably well for those individuals who held them as straight deposits and did not switch to other currencies.

Other complications involve a tightening of British tax regulations. In 1983, the government began treating interest earned on these funds as income for British

residents unless the company distributed dividends. Prior to the ruling, interest had been taxed as capital gain, which put it in a significantly lower tax bracket. While these changes affected only British investors, they triggered a significant fall in the assets of all offshore funds.

The funds operate in a hazy regulatory environment. The U.S. Securities and Exchange Commission has ruled that U.S. residents cannot buy these funds, but the status of U.S. expatriates is undefined. Most of the funds do not ask clients to declare their nationalities, however. □

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# Rethinking the Index Options

By William McBride

To hear many investors tell it, the attractions of stock-index options can be summed up in two words: simplicity and profit. "As a vehicle for speculation, it's a low-priced, highly leveraged way to bet on the market," says Robert Katz, an experienced Chicago investor and money manager. "And it's a lot easier to guess a market move than the movement in a single stock."

Yet, Mr. Katz says he no longer uses index options to speculate, even though he had "made some money" in the market. "Trying to outguess the guys on the other side of the transaction just became too difficult," he said. He now pursues a strategy that uses index options mostly as a means to hedge his portfolio of convertible stock.

Mr. Katz' change in focus is instructive. While there is little doubt that some speculators have done well at the index-options game, many experts remain skeptical of the average investor's ability to outguess the market on a consistent basis. They say the market has attracted such a large number of well-financed institutional players that individuals find opportunities for profit extremely rare.

"I don't really believe that the average person can really make money speculating in these options," said Donald T. Mesler, a Chicago investment adviser. "Occasionally you're going to make out like a bandit but, over the long haul, I'm not very optimistic about using these options for speculation."

Such negative thinking has not held back the ranks of the nonprofessional players who helped push 1984 volume in the Standard &

Poor's-100 index option to nearly 49 million contracts on the Chicago Board Options Exchange. Each day, about 300 traders crowd into the pit area to trade the S&P-100 contract, which alone accounts for 87 percent of total volume in index options.

Roughly 70 percent of all trading volume in the S&P-100 contract is by market makers on the floor of the exchange or by member firms for their own account. The clients of brokers account for 30 percent.

Jerome Mangin, of Bache Securities in London, said that for about 95 percent of the individuals who play the S&P-100 index options, "It's a pure speculative play." Few depart from the basic strategy of purchasing a call, which grows in value as the index rises, or a put, which profits from a decline. Most shun the complicated combination strategies called straddles and spreads.

The reason that many speculators will end up on the losing end are complex and involve the way that options are priced and the structure of the market, the experts say.

They note that the options market is a zero-sum game with two sides. On one side are the buyers of puts and calls who pay a price for the contracts, called a premium, in the hope that the index will move sufficiently to create a profit. On the other side, are the sellers of contracts who, in effect, cover those bets in return for receiving premiums.

Neither side can long enjoy an advantage over the other. "If buying options was such a good deal, then investors would push up the price until premiums were so high that the strategy would quickly become unattractive," Mr. Mesler says. Conversely, if selling options gave investors a meaningful edge, "sellers would come out of the woodwork" and the

advantage would quickly dissolve.

Observers of the index-option market note that premiums are set by the competition of tens of thousands of well-financed buyers and sellers. Any contract that is perceived to be undervalued relative to the expected performance of the index will quickly be spotted and the premium bid up. Similarly, a contract perceived as being overvalued will be sold and the premium dragged down.

By definition then, the speculator can only make money by consistently buying undervalued contracts or selling overvalued ones. But, with the entry over the last year or so of increasing numbers of high-powered institutional players, these opportunities appear less frequently.

This makes it particularly tough for the individual who may not have the means or time to analyze and track the market. The return on occasional speculation "is not going to be very satisfactory," says Gary Gastineau, an options expert with Kidder Peabody. "This is an extremely efficient market."

For the buyer of a call or put, it is not enough to guess correctly about the direction of the market. A buyer of a call, for example, can be right about the index rising, but wrong about the magnitude and timing of the increase. If, during the lifetime of the contract, the index does not rise beyond the option's so-called striking price sufficiently to cover the premium and commission cost, then the option will expire worthless.

By some estimates, about 70 percent to 80 percent of all call contracts expire worthless. Mr. Mesler says the speculator in index options is simply employing the investment technique called market timing, which entails trying to guess short-term swings in the mar-



A floor trader signals a bid in the S&P-100 option pit in Chicago.

ket. "If the investor is one of those rare breeds who is good at market timing, then he has a chance," he said. If not, results can be spotty at best.

Even some experienced traders are finding it increasingly difficult to make a profit on index options. Bache's Mr. Mangin said the high premiums on index options are driving him away from the market. "You need an enormous move in the market to make money," he complains. Mr. Mangin says he is going back to options on individual stocks.

Still, many professional advisers report that their clients do well. Richard Donsky, head of equity options for Shearson Lehman, says his

customers have turned in good results. But he stresses that index options are "for the knowledgeable investor with ample resources who has a knack for trading."

The determined individual speculator must devote a great deal of time to his strategy. Ray Lyon, a California investor who employs a sophisticated strategy involving the sale of call contracts, estimates he spends as much as 10 hours a day on his investments and takes several advisory services. "It's somewhat stressful," he says. "You earn your rewards."

Though options specialists are skeptical about the average investor's ability to outguess the market, they say index options still

## The Basics

■ An index option can either be a call, a bet that the index will rise, or a put, a bet that the index will fall. The buyer selects a striking price and expiration date and is charged a premium for the contract, plus a commission by the brokerage.

■ Index options are unique in being settled by cash payment. If a contract is exercised, its value will be the difference between the striking price times \$100 and the index times \$100.

■ For example, an investor who expects the market to rise could buy a S&P 100 call option with an April expiration and a 180 striking price. The premium would be about \$800. If the index were to rise before the April expiration to 190, the buyer can close out the position and receive a cash payment of \$1,000 (190 x \$100) minus 180 x \$100. If the index had failed to rise sufficiently to create a profit, the contract would have expired worthless.

have an important role in investment strategies. Many managers of both individual and institutional portfolios use the full arsenal of option instruments in ways that often allow them to write more return out of assets and keep a better grip on risks.

But, for the most part, the experts agree that the strategies used by big institutions and professional money managers are not suitable for the average investor. □

## Eurobonds: Making Use Of Ratings

By Terry Gross

QUALITY has always been the watchword in Eurobond market. For the average individual investor, that term has usually been synonymous with bigness and a well-known name, such as IBM, General Motors or General Electric, to name a few among the pantheon of top U.S. corporate issuers.

But slavish devotion to the instantly recognized corporate name can cut into the returns of a portfolio. With a few big-name U.S. corporations issuing Eurobonds that yield less than U.S. Treasury bonds, investors may yet wonder at the high price of "quality." Yet fishing for more attractive yields among the issues of lesser known, smaller companies has its own perils. There is always the nagging question of the creditworthiness of the issuer.

Such difficult decisions are one reason that Eurobond investors are increasingly relying on the evaluations issued by the two major U.S. rating agencies, Moody's and Standard & Poor's. These ratings, by providing a more precise definition of quality, can help in the basic investing chore of maximizing yield at a given level of risk.

Both rating agencies have long been in the business of determining creditworthiness of issuers in the U.S. markets. Moody's started in 1909 and Standard & Poor's in 1923. They expanded their ratings to Eurobond issues in 1982 as U.S. corporations stepped up the already hectic pace of their international borrowings.

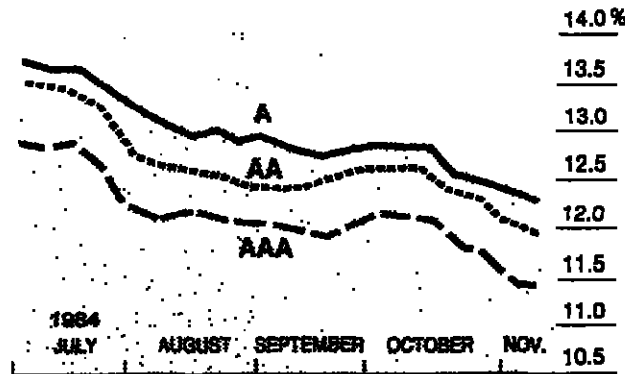
### The ABC's of Ratings

Symbols	Description
Moody's: Aaa, Aa S&P: AAA, AA	These two ratings are reserved for bonds of the best quality. The borrowers' capacity to pay interest and repay principal is secure.
Moody's: A, Baa S&P: A, BBB	Borrowers in these categories are financially sound but have been judged more vulnerable to changes in competitive or economic conditions.
Moody's: Ba, B, Caa S&P: BB, B, CCC	These categories are for bonds that have varying degrees of speculative elements. The companies' ability to pay interest and repay principal is in question.

Adapted from Standard & Poor's International Creditweek and Moody's Bond Record

### How Yields Vary

Standard & Poor's composite index of Eurobond yields



The firms' similar systems of sorting borrowers into categories such as "Aaa," "Aa" and "Baa" are familiar to U.S. investors. Outside the United States, "we're certainly seeing a heightened awareness of ratings generally," said Hendrick J. Kraneburg of S&P's London office, "but there's still lag in the use of ratings compared with the U.S."

Ratings can be thought of as one measure of the risk involved in holding a bond. As always, yields tend to rise as the investor moves from the highly rated, less risky issues to lower rated, more risky issues. In broad terms, the difference in yields between a bond rated Aaa, the highest quality, and one rated Aa, the next highest ranking, can range from about a half of one percentage point to as much as three quarters of a percentage point.

Even yields on bonds within a single rating category can vary substantially, a situation that can sometimes prove advantageous for the alert investor. It is not unusual for a less-well-known borrower to issue Aaa paper in Europe at yields higher than other Aaa-rated, better known borrowers.

"Where a rating is terribly important is

where the borrower is not well known," said Charles S. McVeigh 3d, a managing director for Salomon Brothers in London. In such cases, "a triple-A or a double-A will be very valuable." In effect, the investor can pick up extra yield with little or no additional risk.

In early January, Federated Department Stores, which owns Bloomingdale's and other major U.S. retailers, issued a Aaa-rated Eurobond. The yield was 11 percent. General Electric Credit Corp. issued bonds the same week, with a maturity of only one year longer, and was able to command a 10% coupon. The investor in Federated paper picked up about a half percentage point in yield over the GECC paper when maturity differences are considered.

In some cases, the more risk-tolerant investor would do well to take advantage of the higher yields on issues rated below Aaa or Aa. "Single-A and Triple-B are still indications of solid credit quality," Mr. Kraneburg said.

The rating agencies look at a wide range of factors when sizing up a company's ability to repay debt. Industry and market position, management abilities, accounting practices,

earnings history and projections, indebtedness and ability to deal with unexpected setbacks are part of their long checklist.

The major difference between U.S. and international ratings is the concept of country risk. The sovereign rating for a government's Eurobond debt "usually represents the upper limit of creditworthiness for a corporate issuer" from that country.

Although ratings can be an authoritative guide, professional money managers fall back on their own judgments in some cases. "The household names, those that are well known and acknowledged, there a rating could actually hurt you," said Mr. McVeigh. He said that the "reputation may be better than the rating" for some companies. □

## How 2 Pros Use Them

WITH the boom in U.S. option markets came a new breed of money manager who uses these instruments to guide the funds of large individual portfolios. The services offered by two of these money managers, Bruce Lipnick of Wharton Asset Management and Gary Gastineau of Kidder Peabody, are good examples of how options are put to work by professional investors.

Though their approaches are different, both Mr. Lipnick and Mr. Gastineau have earned reputations for the successful application of options in managing the funds of a small group of well-heeled clients. A key element in both approaches is the use of options to tailor a portfolio to the client's tolerance for risk.

Mr. Lipnick, who guides about \$110 million, uses stock-index options both to reduce the risks of holding stocks and to react more quickly to opportunities in the stock market.

An example of risk reduction is to use put-index options to lock in portfolio profits after an advance in stock prices. If the stock prices then fall, gains on the value of the put options help offset losses on the portfolio. "We temper the downside in such cases," Mr. Lipnick says.

If stock prices do not fall, the loss of the put premiums is looked upon as the cost of eliminating the risks of a sharp setback. Most clients are willing to take a little less yield on their portfolio in exchange for putting a floor under their losses, he says.

Index options can also be used to help the client play the market. Mr. Lipnick says he may put a client's assets into secure short-term money-market instruments and then use

the interest to buy stock indexes when the market looks right for move.

Mr. Gastineau, whose book, "The Stock Options Manual," is probably the most widely read text on the subject, employs a different approach based primarily on options on individual stocks. His strategy consists of constructing what he calls a "synthetic" portfolio of options on individual stocks and occasionally with an option on an index.

Because the values of the stock options rise or fall predictably in response to changes in the underlying stock, the "synthetic" portfolio is what Mr. Gastineau calls the "risk equivalent" of owning the underlying shares outright.

Such a portfolio has a tax advantage for the foreign investor, he notes. Foreign investors are subject to U.S. withholding taxes on dividends at rates ranging from about 10 percent to 30 percent, depending on a system of bilateral treaties. However, option profits incur no withholding tax.

Because the value of a stock option reflects the underlying share's dividend, the return on the "synthetic" portfolio will at least match the yield on the underlying stock. The result is that the foreign resident can, in effect, earn the equivalent of the dividends on the underlying stock free of withholding tax.

Both Mr. Lipnick and Mr. Gastineau say that an options-based investing approach is not for everyone. Indeed, only a few individuals would meet their minimum investment requirement. Mr. Lipnick will not handle portfolios of less than \$1 million, while Mr. Gastineau's Option Portfolio Service requires a minimum investment of \$100,000. □

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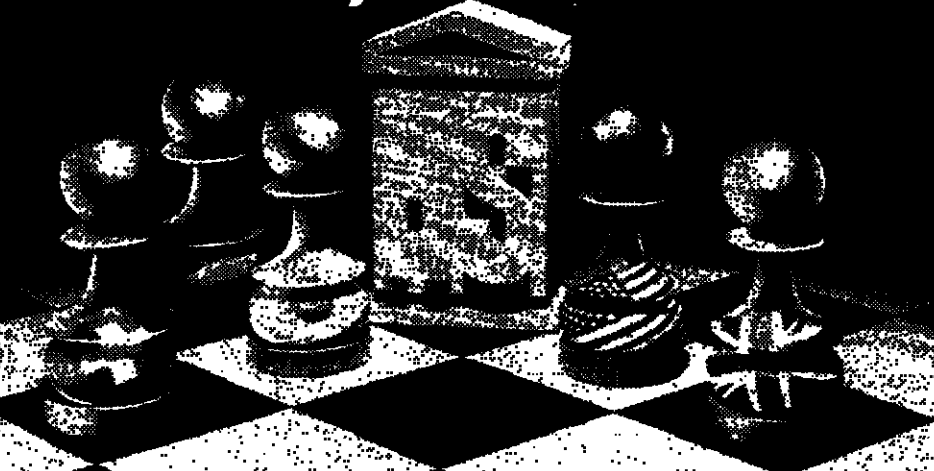
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- \* Ready availability of funds
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## PROFILE

## CHART TALK

# CJR's Thornton: A Long-Term Bull on Far East

By Bob Hagerty

**W**HEN he made his first trip to Australia 21 years ago, Richard Thornton took the advice of a fellow fund manager and stopped off in Tokyo. It seemed to be right in the neighborhood, after all.

"We were, neither of us, very good at geography," says Mr. Thornton. What really struck him after the trip, though, was that Western fund managers knew even less about the Japanese stock market than they did about the niceties of map reading.

Over the past two decades, Mr. Thornton has gone some way toward rectifying that problem, working as an Asian specialist at Foreign & Colonial Investment Trust and later at GT Management, of which he was a founder, and most recently at Charterhouse

J. Rothschild, which he joined in 1983 as a director.

As CJR's top Asia expert, the Oxford-educated barrister remains a long-term bull on both Japan and Hong Kong.

At the moment, Mr. Thornton is "rather hyped up" on Japan's export-oriented blue chips. Foreigners have been net sellers of such shares for the past year, he says, even though the weakness of the yen against the dollar is pumping up Japanese exports to the United States.

"Everybody's saying, 'Well, when the dollar falls these companies are for the birds,' so that you now have them selling not much more than 10 times earnings," Mr. Thornton says.

He expects the yen to rise at least moderately against the dollar this year but doubts that share prices of Japanese exporters will suffer much. "I think that the mere fact of the yen strengthening prob-



Richard Thornton

ably would bring back foreign buying" of Japanese shares, he says. "And almost certainly those are the companies that foreigners would want to buy."

Besides, Mr. Thornton says, such companies as Honda, Toyota and Kyocera have U.S. manufacturing plants, providing some shield against a weaker dollar.

He also favors such "solid exporters" as Fanuc, Makino Milling and Mori Seiki, makers of machine tools. Elsewhere, Mr. Thornton is bullish on certain non-life insurers, such as Tokio Marine & Fire and Taisho Kaikoku, which is extremely cheap and very, very well run. "Certain food companies also find favor with Mr. Thornton: 'I think even a relatively dull old stock like Kirin could surprise us. The beer is delicious, and there's the hint of a pharmaceutical, biotechnological backdrop to it.'"

On the other hand, Mr. Thornton says, "I don't go with the frothy stuff. I don't know what to say about the pharmaceuticals. I think you pay your money and you take your choice and you hang on for a shake, rattle and roll—and you may end up underneath."

If he is enthusiastic about Japan, Mr. Thornton is positively fervent about Hong Kong. Though the Hang Seng index already has rampaged to above 1,320 from 750 last July, he says, "I don't think you've seen anything yet."

In Mr. Thornton's view, outsiders are underestimating the trade benefits to both Japan and Hong Kong arising from China's shift to a more liberal economy with growing pockets of free enterprise.

On his last trip to Hong Kong, Mr. Thornton noted a boom in sales of cheap calculators to China. "The abacus was the rule until the last two years, and now sud-

denly they've all got conscious of calculators. Well, the impact of that sort of technology on a billion people who are innately clever and dexterous and diligent is going to be very, very dramatic."

China needs Hong Kong as a funnel for new goods and ideas, Mr. Thornton says. So he is utterly relaxed about the approach of 1997, when control of the colony is to pass from Britain to China.

What about the risk of another about-face in China's economic policy? "I'm very bold," Mr. Thornton says. "I'd say zero."

Under Deng Xiaoping, the reformers are firmly implanted, Mr. Thornton insists. "The Cultural Revolution just couldn't happen again, as far as I see. I think it's much more likely you'll get a very big push to the right."

Surveying the rest of Asia, Mr. Thornton salutes the powerful economies of Taiwan and South Korea but finds their stock markets neither well developed nor sufficiently free-wheeling.

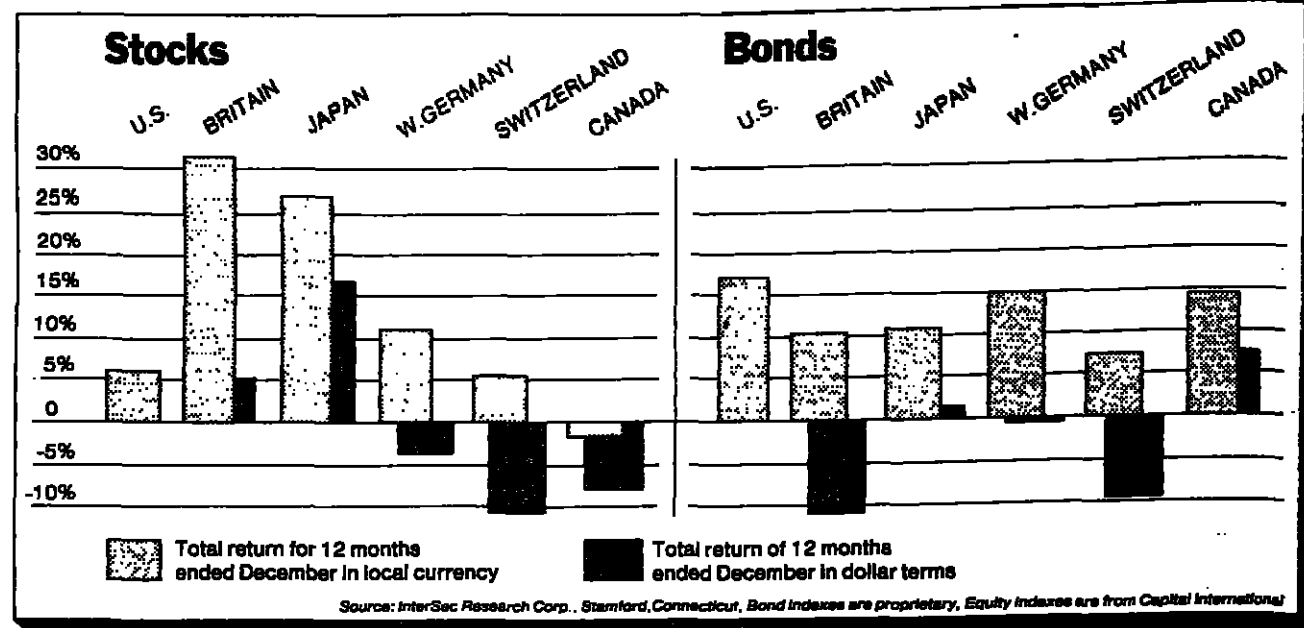
"If you're going to go for undeveloped markets, I prefer the relatively freer Thailand," he says. Detailed information and liquidity are scarce on the Thai market, but Mr. Thornton says there are several companies whose shares are attractive. Bangkok Bank and Siam Cement among them.

Occasionally, Mr. Thornton still manages a side trip to Australia. In that market, he prefers the commodity stocks.

The worldwide slowing of inflation "has not aborted a recovery in the price of raw materials, it's merely delayed it, and I see 1985 as the year when we will anticipate a strong rise in some of the basic commodities."

Mr. Thornton lapses into a rare pause. Then he adds: "I don't want to give the impression that one is rushing in with one's buying boots on, but I'm watching it pretty carefully."

## Tokyo Stocks Rose 15% in '84



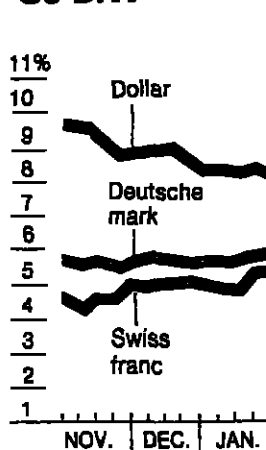
Japanese stocks were the biggest winners in terms of total return in 1984, posting gains of more than 15 percent in dollar terms. British equities were a distant second, yielding about 5 percent because of the pound's weakness.

For fixed-income securities, the United States finished first. Total return on U.S. bonds exceeded 15 percent last year.

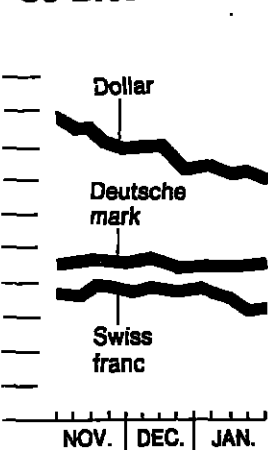
Total return is a measure of performance that reflects both changes in the prices of securities and the income they provide, either in dividends or interest.

For the above chart, gains and losses were measured by comparing market indexes at the end of 1984 with their levels a year earlier. The chart does not take into account taxes or inflation rates.

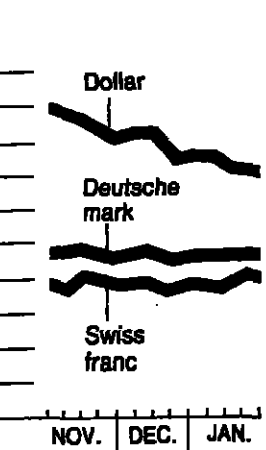
## 30-DAY



## 60-DAY



## 90-DAY



## Small Investors Lead a Rebound

### Gainers and Losers

The stocks on the New York, London and Tokyo exchanges that showed the largest percentage gains and losses in January.

## GAINERS

Percent Gain	Jan. 31 Price
<b>New York Stock Exchange:</b>	
Compiled by Media General Financial Services. Prices in dollars	
Charter Co.	100 2.00
Unidynamics	84 28.75
Anacomp	68 3.38
Continental Illinois	59 9.13
Evans Products	59 5.75
Wean United	57 8.83
National Homes	55 4.25
Newpark Resources	54 2.50
Heston Corp.	51 8.50
Quick and Helly	51 23.38
<b>American Stock Exchange:</b>	
Compiled by Capital International. Prices in pence	
Oleap Copper	98 6.88
Pay Fone	91 5.25
American Medical Bldgs.	90 2.25
Heizer Corp.	88 2.00
Rooney Pace	87 5.38
<b>Over the Counter:</b>	
Sunstates	524 18.00
Comtech	130 2.88
National Environmental	125 2.25
Fared Robots Systems	100 2.00
Zymos	96 2.81
<b>London Stock Exchange:</b>	
Compiled by Capital International. Prices in pence	
Dunlop Holding	46 37.5
Associated Newspaper	44 720
Peninsula and Oriental	31 403
Ocean Transportation	23 153
European Ferries Group	20 154
British Telecom	18 125
Pearl Assurance	17 1,153
Kleinwort Benson	17 445
Cookson Group	15 536
De Beers	14 414
<b>Tokyo Stock Exchange:</b>	
Compiled by Capital International. Prices in yen	
Nippon Gakki	68 2,200
Yamanouchi Pharm.	39 3,800
Daiichi Sankyo	36 2,250
Takashi Pharmaceutical	29 1,250
Konishiroko Photo	23 738
Pioneer Electronic	23 3,250
Bank Yokohama	22 605
Asahi Optical	21 698
Yasuda Trust	21 580
Daiwa Bank	19 580
<b>Sankos Steamship</b>	
Kansai Electric	20 88
Nippon Yusen	13 1,380
Tokyo Electric	12 1,580
Sumitomo Marine	12 583
Dai Nippon	11 297
Mitsubishi Heavy Indus.	11 235
Japan Elect. Optics	11 1,110
Mitsui Real Estate	10 864
Kawasaki Heavy Indus.	9 147

## LOSERS

Percent Loss	Jan. 31 Price
<b>New York Stock Exchange:</b>	
Compiled by Media General Financial Services. Prices in dollars	
Commodore International	24 12.38
American Agromonics	23 2.13
Nutri/System	16 4.83
Safeguard Scientific	16 6.13
Tucson Electric Power	15 35.13
KDI Corp.	15 7.63
Centronics Data	14 9.83
Frigitronics	11 26.50
Purulator Courier	11 25.50
Seagull Energy	11 15.68
<b>American Stock Exchange:</b>	
Compiled by Capital International. Prices in pence	
Ultimate Corp.	44 9.25
Cagle's Inc.	24 6.00
Swanton	21 3.75
Spencer Companies	17 10.13
Eastgroup Prop.	17 32.25
<b>Over the Counter:</b>	
Billings Corp.	50 3.63
Unimet	45 2.75
Hogan Systems	43 6.75
Citizens Savings	40 10.50
Celina Financial	40 3.00

## LOSERS

Percent Loss	Jan. 31 Price
<b>London Stock Exchange:</b>	
Compiled by Capital International. Prices in pence	
Racal Electronics	19 212
Standard Telegraph	13 252
Thorn EMI	13 421
United Scientific	13 227
Plessey	12 186
Powell Duffryn	11 395
Boots	11 178
British Home Stores	10 245
George Wimpey	10 104
Debenhams	9 195

## LOSERS

Percent Loss	Jan. 31 Price
<b>Tokyo Stock Exchange:</b>	
Compiled by Capital International. Prices in yen	
Sankos Steamship	20 88
Kansai Electric	13 1,380
Nippon Yusen	12 1,580
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insular & Oriental Steam made substantial gains throughout the month amid merger negotiations with Sterling Guarantee Trust.

There was little cause for rejoicing among British electrical concerns, however. Amid warnings of weak second-half results and speculation about government spending cuts, five members of the sector headed the market's losers list. Standard Telegraph, United Scientific and Plessey registered drops of more than 10 percent.

The Tokyo market also shared in the worldwide renewal of investor confidence, as the Nikkei-Dow Jones average closed the month at 11,922.31, up almost 4 percent from December's close. But Japanese trading was not as volatile as that in the U.S.

The market did set several new highs, however, especially in the middle of the month when cuts in the prime lending rate were announced. On the final day of trading, the index rose above the 12,000 level before retreating.

Trading in blue-chip issues was sluggish, with most investors seeking out more speculative high-tech and biotech research concerns.

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## Another U.S. Swipe At Secrecy Rules

(Continued from Page 9)

that issue the interest and dividend checks and act as withholding agents for the IRS.

The American Bankers Association has expressed concern over

the high cost of the paperwork the new rules would entail. The association has urged that banks not be required to bear the burden of checking the validity of seals and signatures on certificates of residence.

In addition, the U.S. Securities and Exchange Commission is reportedly split over the proposal. Those staff members favoring the new rules argue that it is essential that the United States bolster its ability to police foreign investors. SEC commissioners have been debating a proposal that would lift any claim to confidentiality when trading in U.S. securities.

Opponents warn that a unilateral action by the United States would discourage legitimate foreign investors from using the U.S. securities markets. They suggest that the commission explore other avenues in bilateral negotiations with individual countries.

Public hearings on the Treasury proposals are scheduled for late February. "It will create a bit of burden, but Treasury would like these rules to go into effect this year, if possible," a Washington tax expert said.

The Treasury proposal marks the latest round in the continuing battle between foreign governments demanding their bank-secrecy laws and U.S. tax officials trying to impose new disclosure requirements.

Foreign governments complain that the United States is encroaching on their sovereignty by trying to extend American laws to foreigners living outside the United States. In the past, some foreign governments have threatened to enact laws making it illegal for their citizens to comply with the U.S. rules.

In response, U.S. officials argue that foreign governments should not protect tax cheats. In this case, they contend, the sovereignty of other nations is not threatened because the scope of the rules is limited to American markets.

In the past, U.S. authorities have forced compliance by foreign citizens and banks through fines, seizure of funds and assets in the United States and by threats to cut off their access to American markets.

## 2500 ON THE DOW

The image of mankind, as theorized by Freud, suggests that all people are mentally ill, a dictum that blends with Schopenhauer's notion that "intelligence is, in some sense, innately bent on self-annihilation". Their philosophies were mirrored by Aldous Huxley, who wrote: "The leech's kiss; the squid's embrace; the prurient ape's defiling touch. And do you like the human race? Not much..."

Huxley's gloom was at variance with the noble nature of man as seen by his grandfather, T.H. Huxley, a staunch supporter of Darwin. Huxley mused: "Man alone possesses the marvelous endowment of intelligence and rational speech, and stands raised upon it as on a mountain top, far above the level of humble fellows and transfigured from his grosser nature by reflecting, here and there, a ray from the infinite source of Truth". It may seem sacrilegious to transpire T.H. Huxley's optimism to such mundane matters as stock markets. His vision was celestial, most investors see no further than the "Tape".

Mankind's lack of vision is endemic, only a few mortals capture the "brass ring". The rest spin in dismay, on a carousel controlled by innovators, the "Power Elite". The basic premise of our investment philosophy is "contrarian"; the rational belief in tomorrow, in dawn, not dusk, the ability to perceive what the "Crowd" rarely senses, the cerebral guts required to defy orthodoxy.

In 1982, while the Dow was under 800, while the "Street" HITTING 750. And now?

This remains a classic time to buy, not to sell; a theme we vocalized during the market's last malaise, a malaise that infected thousands of investors. The market subsequently erupted on the upside; it will erupt again, vaporizing prophets of doom, escalating over 2500.

Our current letter focuses upon senior securities that appear poised for a major upswing; in addition, we review a low-priced, emerging stock that may emulate the success of a recently recommended "special situation" that spiraled 800% in a brief time-span, after discovering a large oil and gas field in Texas.

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INT 11/2

Past performance does not guarantee future results

JP 11/20/85



## New Eurobond Issues

Issuer	Amount (millions)	Mat.	Coup. %	Price	Yield at offer	Price end week	Terms
<b>FLLOATING RATE NOTES</b>							
Bankers Trust New York	\$300	2000	1 1/4	100	—	99.78	Over 3-month Libor. Callable at par on any interest payment date after 1986. Fees 0.32%. Denominations \$10,000.
Ferrovie dello Stato	\$460	1995	libor	100	—	99.64	Interest at the higher of either 1-month Libor or 6-month Libor, set monthly. Callable at par on any interest payment date after 1986. Fees 0.40%. Denominations \$10,000.
PNC Financial	\$100	1997	1 1/4	100	—	99.50	Over 3-month Libor. Callable at par in 1989. Fees 0.60%.
<b>FIXED-COUPON</b>							
Bankers Trust New York	\$100	1990	11 1/2	99 1/2	11.16	97.38	Noncallable.
Bergan Bank	\$75	1990	11 1/2	100 1/4	11.43	96.88	Callable at par in 1988. Payable April 15.
Federal Business Development Bank	\$50	1989	10 1/2	99 1/2	10.41	97.13	Noncallable. Payable April 15.
Ford Motor Credit	\$100	1995	11 1/2	99 1/2	11.70	97.13	Callable at 100% in 1993.
Gould	\$75	1995	11 1/2	100	11 1/2	97.13	Callable at 101 in 1992.
John Deere Credit	\$150	1995	11 1/2	99 1/2	11.69	96.68	Noncallable. Payable March 19.
Kubota	\$150	1992	10 1/4	100	10 1/4	96.38	Noncallable.
Nippon Shuppan	\$50	1992	11	100.60	10.87	—	Noncallable.
Nishin Steel	\$50	1992	10 1/4	100	10 1/4	96.25	Noncallable.
Orient Leasing	\$50	1992	11	100.60	10.87	—	Noncallable.
Rockwell Int'l	\$300	1992	10 1/2	99 1/2	10.93	97.13	Callable at 100% in 1989.
Royal Bank of Canada	\$100	1990	11 1/2	100	11 1/2	97.25	Noncallable. Payable April 15.
Society for Savings	\$75	1990	11 1/2	100	11 1/2	—	Noncallable. Backed 150% by cash and securities.
Toyo Trust Asia	\$100	1992	11 1/2	100	11 1/2	98.50	Noncallable. Payable May 8.
EIB	DM 300	1993	7 1/2	100	7 1/2	98.50	Noncallable.
Quebec Province	DM 200	1995	7 1/2	100 1/4	7.59	98.50	Noncallable.
Chrysler Financial	ECU 60	1991	10	100	10	98.63	Noncallable. Payable March 26.
Bank of Tokyo	Aus\$ 50	1992	12 1/2	101 1/2	12.29	—	Noncallable. Denominations Aus\$10,000.
Bank Mees & Hope	DF 150	1992	7 1/2	99	7.72	—	Noncallable. Sinking fund to start operating in 1989 to produce a 5.5-yr average life.
New Zealand Breweries	NZ\$ 25	1991	15 1/2	99 1/2	15.82	98.50	Redeemable at par in 1989.
New Zealand Breweries	NZ\$ 25	1992	15 1/2	99 1/2	15.84	98	Redeemable at par in 1990.
<b>EQUITY-LINKED</b>							
Kumagai Gumi	\$80	2000	3 1/2	100	3 1/2	—	Callable at 104 in 1988. Convertible at 600 yen a share and at 260.75 yen per dollar.
Moruzen	\$20	1990	open	100	—	99.50	Coupon indicated at 8 1/2%. Noncallable. Each \$5,000 note with 1 warrant exercisable into shares at an expected 29 1/2% premium. Terms to be set Feb. 15.
Mitsui Petrochemical Industries	\$25	1990	8 1/2	100	8 1/2	101	Noncallable. Each \$5,000 note with 1 warrant exercisable into shares at 380 yen a share and at 261.85 yen per dollar.
Optec Dai-ichi Denko	\$30	1990	open	100	—	—	Coupon indicated at 8 1/2%. Noncallable. Each \$5,000 note with 1 warrant exercisable into shares at an expected 29 1/2% premium. Terms to be set Feb. 15.
Shin-Etsu Chemical	\$30	2000	open	100	—	98.25	Senior coupon indicated at 3 1/2%. Callable at 104 in 1988. Convertible at an expected 5% premium. Terms to be set Feb. 12.
Taiyo Yuden	\$50	2000	open	100	—	97.25	Senior coupon indicated at 3 1/2%. Callable at 104 in 1988. Convertible at an expected 5% premium. Terms to be set Feb. 14.
Yamato Transport	\$40	2000	3	100	3	98.50	Callable at 103 in 1990. Convertible at 1,238 yen a share and at 261.15 yen per dollar.

## Bankers, Regulators Wary of Loan Underwriting

By Carl Gewirtz

PARIS — While regulators have not yet formally taken steps to curb the growing tendency of commercial banks to increase income by underwriting loan commitments not taken on their books, the Bank of England and the Federal Reserve warned banks last week to be cautious.

At the annual banquet of the Overseas Bankers Club, Robin Leigh-Pemberton, governor of the Bank of England, said, "Banks would be well advised to examine closely the extent of these risks and to consider carefully the appropriate price to charge."

And in a speech in Frankfurt, Henry C. Wallich, a governor of the Federal Reserve, said, "A bank is not strengthened... if it raises its capital ratio by placing some of its assets 'below the line'... or substitutes contingent for ordinary liabilities."

Despite repeated indications of official concern, bankers privately lament that this business will continue to grow until formal guidelines emerge. The Bank of England and the Fed have indicated that such guidelines are under study.

What worries bankers, as well as the regulators, is that the note placement facilities that banks are underwriting for relatively slim fees (which are taken directly into profit without any increase in the balance sheet as long as the notes are sold) can turn into low-margin bank loans if the note market suddenly turns sour.

The underlying concern is that if a financial crisis shuts the market, the banks would be obliged to substantially increase their assets (loans) as a result of these underwritings. This would have the effect of making the banks' capital ratios

deteriorate at the very moment when public confidence in the banks was likely to be weakest.

While the flow of new transactions shows no sign of voluntarily ebbing, bankers report that the recent upward drift in short-term interest rates has made it more difficult to sell short-term notes.

"We've seen some defensive bidding," said one banker. But, he added, "it's not a brick wall." Paper continues to be placed, he explained, but at terms that are more expensive for issuers.

Britoil was able to place \$25 million of six-month notes last week at a cost of 15 basis points (hundredths of a percentage point) below London interbank offered rates — less expensive than its previous sales, which were at 10 and 9 basis points below Libor.

The latest new entry to the note market is Portugal. It is seeking \$300 million for eight years — half as a classic syndicated bank credit and half as a note placement facility.

Portugal can ask banks to propose terms for short-term advances (which are direct bank loans) or for Euronotes. Underwriters will be paid an annual 1 1/2-percent facility fee and they guarantee to take the notes at 1/2 point over the London interbank offered rate. If the tender panel bids less than 3/4 point over Libor, Portugal can pocket the saving. But it is assured that it can draw the entire amount from the banks at a maximum cost of 1/2 point over Libor (the annual facility fee plus the 1/2-point utilization charge).

This is the identical margin it will pay on its straightforward syndicated credit. Front-end fees on the package total 1/2 percent. Managers say the loan is structured to appeal to banks looking to take assets on their books. The note

facility will enable Portugal to test that market and possibly save on borrowing costs if the market proves receptive. As it is, the terms are a marked improvement over the split 1/4-3/4-point margin Portugal paid last year to tap the syndicated loan market.

Transco Energy Co. of the United States is tapping the market for \$150 million for five years. It will sell one-to-six-month notes at a maximum yield of 15 basis points over Libor.

East Germany is coming to the syndicated loan market for \$150 million, which many bankers say will be increased to at least \$250 million. Given the demand for scarce high-paying credits and the resulting decline in margins, there was some surprise that the East Germans had not secured more than an 1/4-point decline from the margin on their previous loan.

The new loan is likely to be dominated by U.S. banks, thanks to the provision that lenders can opt to price it at 1/2 point over the prime rate of Citibank or 1/2 point over the 90-day rate for certificates of deposit or 3/4 point over Libor.

U.S. banks have been largely absent from lending to Eastern Europe, but these terms will be seen as very attractive. Even Mexico, which is hardly in a position to choose how it gets its money, has refused to pay interest based on the U.S. prime rate.

The East Germans will pay front-end fees of 1/2 percent as well as a 1/2-percent commitment fee on any undrawn portion.

In sharp contrast, Vneshtorg, the Soviet Union's foreign trade bank, is seeking a seven-year loan of 50 million European currency units. It is to pay 1/4 point over the interbank rate for the first three years, then 1/2 point. This is a very big drop in costs, as it last paid 1/2 point over

Libor for five-year money. Fees on the new loan total 25 basis points.

Avasa, a Spanish highway agency, has consolidated five older and more expensive credits into a new 300-million-Deutsche-mark loan running for seven years. Interest on the new loan is set at 1/4 point over the interbank rate for the first two years and 1/2 point thereafter, down sharply from the more than 1 percent paid on the existing loans. In addition, it is renegotiating terms on five dollar loans, totaling \$125 million, on which it is paying some 1 1/2 points over Libor, and on another DM loan.

The operation has created some friction, as Merrill Lynch — which did not participate in any of the old loans and is not putting any of its money into any of the new operations — is coordinating the refinancing. Commercial banks do not take kindly to what they consider trespassing by investment banks.

Merrill says that it is acting as an adviser to the borrower and that criticism from the commercial banks has not impeded the syndication of the new loan.

Reuters reported from London that Thailand and two of its agencies were expected to tap the Euro market for a total of \$400 million in 20-year floating rate notes. The agency quoted banking sources as reporting that Thailand itself would issue \$60 million of notes, the Petroleum Authority of Thailand \$145 million and the Electricity Generating Authority of Thailand \$195 million. All three will have investor "put" options after 10 years.

The mandate for the notes has been awarded to Chase Manhattan, Lloyds Bank International, Long Term Credit Bank of Japan, Manufacturers Hanover Trust, Morgan Guaranty Trust and Orion Royal Bank.

## New Issues Flood Market as Investors Move to Sidelines

(Continued from Page 7)

had obtained commitments from underwriters continue to force the market.

"These are less sophisticated issuers," said one Japanese banker, "who are unwilling to adapt to the changed circumstances and are unconcerned about the damage to their name or the market."

Bank of Tokyo, however, playing on domestic investors' appetite to diversify away from the dollar, offered 50 million Australian dollars of seven-year notes bearing a coupon of 12 1/2 percent. The notes were priced at 101 1/2 to yield 12 1/2 percent.

In the floating-rate market, the new issues for Bankers Trust, Ferrovie dello Stato and PNC, a Pennsylvania-based bank holding com-

pany, were well received and traded within the commissions paid to underwriters.

Ferrovie offers bankers buying the notes a hidden return by encouraging mismatching. Interest is fixed monthly at the higher of the one-month London interbank offered rate or the average of the six-month bid-offered rate. Thus, banks funding their investment with one-month money can pocket the 1/2-percent difference between the one-month Libor and the six-month Libor.

With the dollar last week setting daily 13-year highs against the Deutsche mark and yen, and record highs against sterling, the non-dollar markets were looking distressed.

By the end of the week, the dollar was worth 3.2426 DM, up from 3.1725 a week earlier. On top of that, domestic DM interest hardened by up to a quarter-point. As a result, international investors shunned the market, and the prices of recent issues tumbled.

Public Power Corp. 7 1/2s ended the week at 95 and the World Bank 7 1/2s were at 96.

Prices on the new issues were being supported by managers, but the paper was not moving. Quebec's 200 million DM of 10-year bonds, priced at 100 1/2 bearing a coupon of 7 1/2 percent, were quoted at a 1/4-point discount. The European Investment Bank's 300 million DM of eight-year bonds, offered at par with a coupon of 7 1/2 percent, were quoted at a 1/4-point discount.

Frankfurt bankers feared this

week's scheduled issues for Spain, the Inter-American Development Bank and a South African state borrower will only add to the market's woes.

Paper denominated in European Currency Units also fell out of favor for the same reasons — sliding value against the dollar and rising interest rates for the component currencies. Chrysler offered 60 million units of six-year notes bearing a coupon of 10 percent, up 1/4 point from recent six-year ECU paper, but failed to attract support. The price was supported at a discount of 1 1/2 points.

The European market, hit by unfavorable currency developments and unattractively low coupons on recent issues, was shattered. The recent issues were trading at discount of 5 to 6 percent.

## U.S. to Permit Kuwait to Have Leases

New York Times Service

WASHINGTON — The U.S. Interior Department, reversing a two-year-old ruling of former Secretary James G. Watt, has decided to make Kuwait eligible to acquire mineral leases on federal lands, ending a dispute that has troubled relations between the two governments.

The Watt decision, which was reversed Thursday by outgoing Interior Secretary William F. Clark as his last official act, was precipitated by the takeover in 1982 of Santa Fe International Corp., an American oil company, by the state-owned Kuwait Petroleum Co. "We are very glad," said Talal Razouqi, first secretary at the Kuwait Embassy here. "We felt the original decision was a mistake."

Kuwait Petroleum spent \$2.5 billion to purchase Santa Fe, a large U.S. oil-drilling and production company based in Alhambra, California. It was one of the biggest investments in American industry by any oil-exporting nation, and immediately touched off fears in Congress about the national-security implications of letting resources fall under foreign control.

It was largely in response to those fears that Mr. Watt, invoking the rarely used Mineral Lands Leasing Act of 1920, ruled that Kuwait discriminated against American oil companies and therefore should be prohibited from owning any interest in petroleum leases in the United States.

The 65-year-old legislation contained a reciprocity provision giving the interior secretary authority to withdraw oil-exploration rights from foreign nations that do not provide "like or similar" investment privileges for American citizens.

One of the key issues, according to Mark Guidry, an Interior Department press officer, was that Kuwait does not permit citizens of any country, including its own, to own oil leases. However, there are a number of other countries with similar policies, such as Britain, Sweden and Mexico, and the United States does not bar their activities.

"This will permit us to invest more fully in the development of oil and gas resources in the U.S.," said John Andrew Miller, vice president and associate general counsel of Santa Fe International. He added that the order affects about \$13 million of federal onshore oil and gas leases in such states as Oklahoma, Louisiana and Colorado. States and the federal government share in the royalties from oil and gas production, as well as the taxes on profits.

This announcement appears as a matter of record only.  
The Notes were offered and sold outside of the United States of America.



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U.S. \$100,000,000  
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11 1/4% Notes due January 15, 1992

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Deutsche Bank Aktiengesellschaft

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ECU	European Currency Unit	Y	Yen
EUA	European Unit of Account	LFR	Luxembourg Franc
L	Pound Sterling	SFR	Swiss Franc
DM	Deutsche Mark	FF	French Franc
NMD	Norwegian Kroner - DM		



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OneLbt	1.69e	11.7	189.14h	14th

Opto	1254	74%	74%
Optical Cp	55	29%	29½
OpticSp	2311	91%	8
Optim	273	1	½
Optitrich	92	18½%	17½

Ovrsing	5	2%	2%
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Job/Profession	Nationality
Company activity	11-2-85

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**Soviet Union Intensifies Its Campaigns Against NATO Missile Program**

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100

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The Saturday morning program was the first of its kind in the area. It was held at the home of Mrs. J. W. Smith, who has been instrumental in many of the church's activities.

When I was a little girl, I used to go to the store with my mother. I would always get a little something extra, like a candy or a sticker. I would always get a little something extra, like a candy or a sticker. I would always get a little something extra, like a candy or a sticker.



4



## GM-Toyota Venture to Limit Distribution of Nova

By James Risen  
Los Angeles Times Service  
CHICAGO — The Chevrolet Nova, the first car to be produced by the GM-Toyota joint venture in Fremont, California, will initially be sold only in the central United States and will not reach dealers on the East or West coasts until at least early 1986, according to Chevrolet officials.

Robert D. Burger, Chevrolet's general manager, said Friday at the Chicago Auto Show that Nova production was starting so slowly that Chevrolet would not have enough of the subcompact to supply all its dealers in time for the Nova's introduction June 13.

The joint venture, which began production in December, will build

only about 41,000 cars in 1985, Mr. Burger said. The joint venture expects to produce 250,000 cars a year when it reaches full production. But Mr. Burger said Toyota, which is managing the Fremont plant, traditionally is slow to increase output when it opens a new factory.

In the central United States, the region to which Chevrolet will limit initial sales of the front-wheel-drive Nova, the company does not now sell its small Japanese imports, the Chevrolet Spectrum and Sprint models. The Spectrum, imported from Isuzu Motors Co., is sold only on the East Coast, while the smaller Sprint, built by Suzuki Motor Co., is sold on the West Coast.

GM has had to limit its distribu-

tion of the Sprint and Spectrum, introduced last year, to the coasts because of quotas on Japanese auto imports, under which Chevrolet can import 17,000 Sprints and 27,500 Spectrums a year.

■ **Price Higher Than Sprint's**  
John Holusha of The New York Times also reported from Chicago:

The Nova will be priced considerably higher than the Sprint, which is Chevrolet's cheapest model, GM officials said Friday.

At about \$6,400 to \$7,000, the Nova will cost at least \$1,000 more than the Sprint, reflecting Chevrolet's intention to have the Nova compete directly with more expensive, more lavishly equipped cars imported from Japan.

"This is not an entry-level car,"

said Mr. Burger. He said no final decision had been made on the price, and that the key judgment was whether to position the Nova above or below the domestically produced Cavalier, which has a base sticker of \$6,606.

Chevrolet officials said they were prepared to import 100,000 cars a year each from Suzuki and Isuzu if the U.S.-Japanese quota agreement were lifted. But they said its complete removal was unlikely.

Separately, J. Michael Losh, general manager of Pontiac, said GM was working on an agreement with the South Korean company Daewoo to import about 80,000 cars a year, to be sold as Pontiacs in the 1987 or 1988 model year. He said the cars were intended to be priced at less than \$7,000.

## Court Backs Bid for U.S. Railroad

New York Times Service

CHICAGO — A U.S. judge has ruled in favor of a \$571-million bid by the Minneapolis-based Soo Line Railroad Co. for the bankrupt Chicago, Milwaukee, St. Paul & Pacific Railroad Co., known as the Milwaukee Road.

U.S. District Judge Thomas R. McMillen ruled Friday against a \$786-million bid by the Chicago & North Western Transportation Co., saying a takeover by the latter would have hampered competition and led to abandonment of too much track because the railroad shares many markets with the Milwaukee Road.

He said the difference between the two offers represented a "premium" for stockholders of the Chicago Milwaukee Corp., the Milwaukee Road's holding company.

A spokesman said Chicago & North Western would not appeal. But Daniel R. Murray, a lawyer representing the Milwaukee Road's holding company, said he would file an appeal on behalf of the company and its stockholders.

## Union Carbide Plant Rejected in Scotland

Reuters

EDINBURGH — Union Carbide Corp., whose plant in Bhopal, India, caused a major pollution disaster, has been refused permission to build a plant near Edinburgh, local officials said Sunday.

Thousands of local residents campaigned against the company's application to build a plant to mix toxic gases just outside Edinburgh in Livingston New Town.

## THE EUROPEAN COMMUNITY

### U.S. Seeks Talks With EC on Steel

By Steven J. Dryden

International Herald Tribune

BRUSSELS — The United States has asked the European Community for consultations on exports of semirigid steel products to the United States.

Community officials said they were surprised and concerned by the U.S. request Friday, which came a month after the two sides settled their dispute over the level of EC steel pipe and tube exports to the United States.

Exports of semirigid steel products are not limited by U.S.-EC agreements. The 1982 steel agreement, however, gives the United States the right to ask for consultations if it believes increased exports of unregulated steel products are being used to get around the accord's limits on finished steel goods.

EC exports of semirigid steel products to the United States have increased in the past several years, community officials said. The latest figures available show that about 500,000 tons were exported to the United States during the first 10 months of 1984.

An EC source attributed much of the export increase to the growing value of the dollar. "We're a bit astonished" by the U.S. request for consultations, the source said, especially since President Ronald Reagan issued a call for expanded world trade in his State of the Union address last week.

Under the 1982 agreement, the United States can take unilateral action to limit imports if the dispute is not resolved by consultations. The United States asked that the consultations begin Feb. 25.

### Ministers Look at Plan On Technical Standards

On Monday, EC ministers were to examine the new European Commission proposal to ease the

approval of common technical standards for community products. The proposal is seen as a key step toward creating a true common market that would strengthen the EC economy.

The 10 member nations now are to negotiate standards for each individual product, a lengthy process that in the past sometimes has not been completed until after the product has become outmoded.

The new commission proposal suggests that the community adopt basic requirements on safety, health and environmental standards. Further technical standards would be worked out by national authorities.

Products meeting the community standards would be allowed to circulate freely among the member states.

Lord Cockfield, commissioner for the internal market, wants the ministers to approve the approach of the proposal Monday, then give final approval at their next meeting, in May. The proposal is expected to provoke objections from member states seeking to protect national industries.

### Business-Labor Meeting Called Useful Forum

The Jan. 31 meeting between the European Commission's president, Jacques Delors, and representatives of business and labor groups may produce further discussions on ways to combat Europe's economic problems.

Participants said the meeting produced a "positive" atmosphere, even though there was no overall agreement between the business and labor representatives on means of creating more jobs and encouraging business growth.

Union officials said that they were encouraged by the open nature of the discussions, and that there was agreement that further talks should be held.

The union and business groups are in agreement on such broad goals as breaking down barriers to trade within the community, but disagree on such issues as reduced working time, the extent of public investment to counter unemployment, and government regulation of business.

The daylong meeting was called by Mr. Delors as a way of demonstrating the community's desire to work with the two groups, both of which have been critical of the commission's economic policies.

Business groups were represented by the Industrial Association of the European Community. Labor groups were represented by the European Trade Union Confederation.

### Continued Growth Seen In Industrial Investment

Community officials are encouraged by the results of a survey carried out late last year showing that industrial investment in member countries, which began a recovery in 1984, will continue to grow this year.

The survey forecasts that industrial investment will register a 9 percent increase in real terms in 1985, compared to a 7-percent real increase last year.

### Luxembourg to Launch A 16-Channel Satellite

Reuters

LUXEMBOURG — Luxembourg will create a new multinational company next month to launch a European communications satellite in mid-1986, a government spokesman said Sunday.

A number of companies have agreed to take part in the project, which will beam as many as 16 channels over most of Europe.

## Boesky Has Stake In Holiday Inns

New York Times Service

NEW YORK — Ivan F. Boesky, the New York investor, and a group of companies he controls disclosed Friday that they had acquired an 8.6-percent stake, or 2,980,200 common shares, in Holiday Inns Inc., which they bought from Jan. 8 through Jan. 31.

Holiday Inns, however, said that it had tendered from Mr. Boesky 2.25 million of those shares as part of a previously announced plan to repurchase 6.3 million of its common shares at \$49 a share. Mr. Boesky, who bought his stock for an average of \$47.30 a share, would have earned about \$3.8 million from the transaction.

Separately, Holiday Inns reported a 33.1-percent increase in net income in the fourth quarter, to \$20.5 million, or 59 cents a share, from \$15.4 million, or 42 cents a share, a year earlier. Revenues rose 9.3 percent, to \$429.5 million.

## Decline in Prices Is Partly Reversed

By Michael Quint

New York Times Service

NEW YORK — Treasury note and bond prices rose slightly Friday, reversing some of the decline that accompanied the Treasury's auctions — which totaled \$19 billion — during the past week.

Although prices rose enough so

### U.S. CREDIT MARKETS

that new Treasury issues closed at prices roughly equal to the average auction levels, investor demand was mixed. Some firms said investor activity was light. Others reported modest demand for new 10-year and 30-year Treasury issues.

By late Friday, the new 10-year percent notes due in 1988 were offered at 100, up from an average price of about 99 30/32 at Tuesday's auction and well above the low of 99 21/32 set early in the morning. The 11 1/4-percent notes due in 1995 were offered at 99 11/32, up from about 99 11/32 at Wednesday's sale and

### U.S. Consumer Rates For Week Ended Feb. 8

Passbook Savings	5.50 %
Tax Exempt Bonds	9.52 %
Bank Money Market Accounts	8.10 %
Bank Rate Money Market	8.82 %
Home Mortgages	13.67 %
FHLB overnight	

well above the morning's low trade of about 98 13/32.

The new 11 1/4-percent bonds due in 2015 were offered at 99 1/2 to yield 11.27 percent, up from an average price of about 99 27/32 at Tuesday's auction and a low trade of about 99 1/16 early Friday.

Temporary purchases of securities by the Federal Reserve helped raise prices shortly before noon. Some analysts concluded that the Fed's willingness to add reserves to the banking system when the overnight rate for bank loans in the federal funds market was 8 9/16

percent was a sign that the central bank was not trying to encourage significantly higher short-term interest rates.

Fear of a tighter Fed policy may also be dispelled, traders said, when the Fed announces benchmark revisions to money supply data and new seasonal adjustments for 1985. The net effect of the new data, which a Fed spokesman said were scheduled for release Thursday, might be a higher money supply during the 1984 fourth quarter, thereby bringing the current level close to the Fed's tentative 1985 growth target of 4 percent to 7 percent.

The basic money supply level is about \$2.5 billion above target. New seasonal adjustments could reduce the size of the increase expected to be announced Thursday.

Traders were also encouraged by comments by Preston Martin, vice chairman of the Federal Reserve, that inflation was likely to remain low even as the economy continued to expand.

## Bonn Struggles With Jobless Rate

(Continued from Page 7)

Rangemann, as well as various economists think there is a need to make West Germany's wage structure more flexible. In 1983, West Germany's wage costs including so-called social costs were the highest in the European Community at 27.42 DM per hour.

Mr. Gatzenger, the economist, said the Social Democrats' proposal to provide tax relief to companies taking on new workers may help only in the short run. He warned that the tax relief could be seen as subsidization, which would eventually put a brake on the economic recovery by making companies less able to compete on their own. And he said that such a program would hurt the long-term economy by eventually requiring higher taxes.

Economists suggest that West

German employers in the next year or two will resort to buying labor-saving technology to increase productivity and competitiveness, rather than hiring new, high-priced West German labor.

Economic surveys show that West German exporters were operating at 83-percent capacity in December, up from about 82 percent in September, and there is hope that these companies will take on new plant and workers to meet growing demand.

However, economists say it is troubling that many of these exporters are having windfall profits but delaying major decisions on investment and hiring because of uncertainty over the future trend of the dollar against the Deutsche mark. Another wage conflict could arise should West Germany's unions assert that they were not

sharing in the export boom, the economists say.

Recent steps by the Labor Ministry allowing for the flexible employment of workers for up to one year with the option to fire may make employers more willing to take on new workers. Mr. Gatzenger said. The substantial costs — and the legal complications — involved in firing workers in West Germany, as well as in other European Community countries, have encouraged employers to resort to overtime for the currently employed rather than hiring new workers.

At Maschinenfabrik Augsburg-Nürnberg AG, a major manufacturer of diesel engines, the cost of laying off 10,000 workers over the past two years was 237 million DM, according to the company chairman, Otto Voisard.

## French-Run Hypermarket a Hit in U.S.

(Continued from Page 7)

market. Its annual revenues are expected to exceed \$100 million. Indeed, Mr. LeFoll said Bigg's had done so well that Hyper Shoppes has decided to open three or four new Bigg's next year "in the South and in the West."

On Saturday mornings, when the store is busiest, checkout lines can be an hour long — despite the large number of checkout lanes.

"When I was here two weeks ago, the lines were so long I was a little irritated," said Margaret Stamper, who drove 16 miles (25.7 kilometers) to Bigg's from her home in Highland Heights, Kentucky.

"But you can see why I come; it's a lot cheaper," she continued, while standing in front of two shopping carts overflowing with \$91 worth of groceries. "I paid 89 cents for a box of Kellogg's Corn Flakes. It would be 75 cents more somewhere else."

"It's a real advantage shopping here," said Jill Ackley as she shopped for a three-pronged electrical wall adapter in Bigg's hardware department. "Here I can buy bread, lunchmeat and electrical equipment all at the same place."

By seeking to keep overhead down and volume high, Bigg's aims to be the lowest-price grocery merchandiser in the area. In a recent week iceberg lettuce was selling for 47 cents a head, a gallon (3.79 liters) of milk for \$1.49, and five freshly baked one-pound (453.6-gram) loaves of bread for a total of 99 cents. It was also selling RCA 19-inch color televisions for \$245.

The dent Bigg's has made has prompted competitors, such as the Cincinnati-based Kroger Co., to price more aggressively.

Paul Bernish, a spokesman for Kroger, the second-largest U.S. food retailer, after Safeway, would not comment on Bigg's directly, but said, "We are and will be competitive with anyone in our market." Kroger accounts for half its hometown's grocery sales.

One thing helping keep Bigg's prices low is its principal supplier, Super Valu Stores Inc., the largest U.S. grocery wholesaler. Super Valu owns 10 percent of Hyper Shoppes and was instrumental in designing the store and selecting a site.

While most modern supermarkets run from 30,000 to 50,000

square feet (2,787 to 4,645 square meters), 65,000 of Bigg's 200,000 square feet is devoted to groceries. Its general merchandise area takes up the other 135,000 square feet.

Retail analysts projected that the grocery part of Bigg's would have sales of about \$14 a square foot a week, compared with \$6.90 at the average supermarket across the United States. But analysts said the general merchandise part is expected to have sales of only \$7 a square foot a week. That, analysts suggested, might prove a major obstacle to Bigg's expansion.

"They're so big that there is a limited number of markets that can absorb a store like them," said Michael W. Wright, chairman of Super Valu.

Mr. LeFoll said he "would be disappointed" if his store's earnings do not exceed the 1 percent of gross that is the yardstick for supermarkets. He attributes the high earnings to high volume and a low, fixed overhead.

For instance, the brightly lit store is hardly decorated, except for a few murals in back that seek to prevent it from looking like a warehouse.

Grütnzer: Stadt. Galerie im Lenbachhaus, München.



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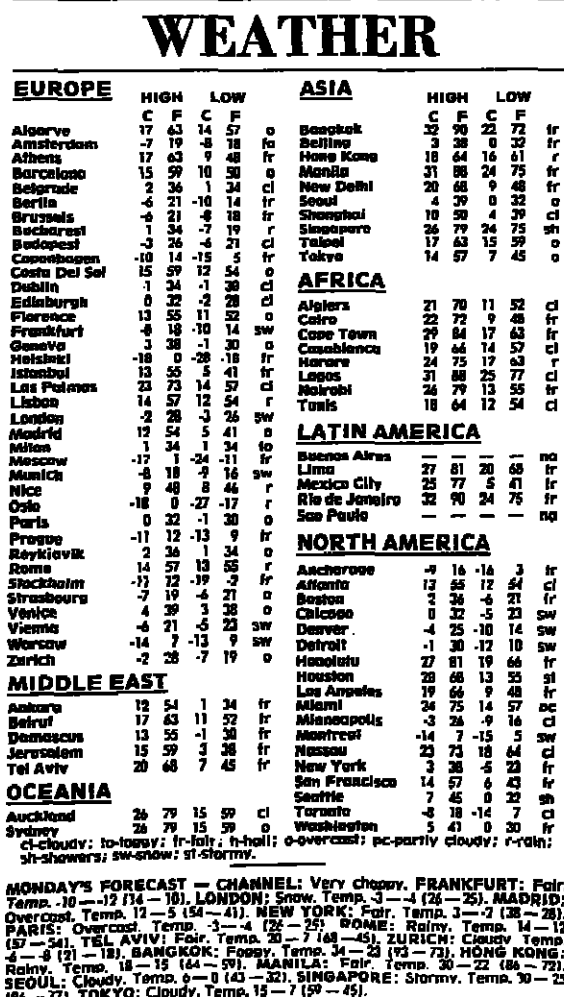
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plans to begin throwing soon. He says he doesn't know how his arm will respond, but he's gearing himself to be ready by opening day.







## Derek Jacobi on Acting: 'Extraordinary Things Happen'

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